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SOVIET UNION

Soviet East Europe Policy From Yalta to Malta

90ON0453A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 3, 1 Feb 90 pp 6-9

[Article by Rong Zhi (2837 2784): "From Yalta, Helsinki to Malta—On Evolution of Soviet Policy for Eastern Europe"]

[Text] Recently, one socialist country after another in Eastern Europe went through tremendous changes with such speed and to such an extent that the world was stunned by it. The international media speculated that these changes could well affect the situation in Europe, or even the world, in the last 10 years of this decade. There were many reasons that caused these changes, chief among them being a change in the Soviet Union's policy toward Eastern Europe.

The emergence of socialist countries in Eastern Europe was inevitable after World War II. Soviet troops entered Romania in the autumn of 1944, indicating that the Soviet Union was about to liberate a vast area of Eastern Europe and the Balkans. In October the same year, British Prime Minister Winston Churchill flew to Moscow to exchange views on postwar Eastern Europe and the Balkans with Stalin. A communique issued later described both sides as having a "free exchange of opinions on various political issues of mutual concern" without giving details to the result of their talks. Only after Churchill published his memoirs was the result made known. According to the book, the two leaders decided on the percentage of influence the West and the Soviet Union would each have in Eastern Europe and the Balkans: 90 percent for the Soviet Union and 10 percent for the West in Romania, 10 percent for the Soviet Union and 90 percent for the West in Greece, 50 percent each in Yugoslavia and Hungary, and 75 percent for the Soviet Union and 25 percent for the West in Bulgaria. The United States was notified of this agreement.

Yalta Painted a Blueprint for Postwar Europe and the World

The Yalta Conference held in April 1945 by the Soviet Union, the United States, and Great Britain was a historical occasion to decide the future of Europe and the World after the war. It was decided then that the United States and the Soviet Union would both play a significant role in European and international affairs. Two documents were signed at this meeting. One was the Crimea Declaration signed by the Soviet Union, the United States and Great Britain, the other was the Yalta Agreement. The former documented the understanding the three countries had reached on postwar Europe and the setting up of the United Nations, the latter was a secret agreement the three countries had reached on the conditions for the Soviet Union to declare war on Japan.

The Crimea Declaration decided that the three countries should jointly control Germany (later, Great Britain and

the United States each gave a piece of their territory to be controlled by France). Under this document, the areas of occupation were demarcated along the Curzon Line on the east of Poland's borders. The Soviet Union suggested that the line of control on the western front be drawn along the Oder River and the Neisse River. The United States and Great Britain agreed to this in principle, but insisted that it be included in the peace treaty concerning Germany. So the Crimea Declaration did not include this. With regard to the formation of the provisional government in Poland, all countries agreed to expand the representation of the provisional Lublin government by including "democratic leaders in and outside the country." As for Yugoslavia, the three countries supported the idea of establishing a provisional antifascist assembly formed by members of the country's last parliament who did not cooperate with the enemy. With regard to the just-liberated Europe, it was agreed that the three countries should have "unanimous policies" to help the newly liberated people. The declaration did not repeat what the Soviet Union and Great Britain had earlier agreed on the percentage of influence on Eastern Europe and the Balkans.

The declaration was the result of a compromise among the Soviet Union, the United States, and Great Britain. But the three countries each had its own idea about postwar Europe. Stalin expressed his intentions clearly in a 1945 talk with Tito. He said, "Without exception, everyone wants to forcibly extend his own system to wherever his troops can advance to." This was not in conformity with the understanding reached between the Soviet Union and Great Britain in 1944. But Stalin, who felt that the Soviet strength was weaker after the war, was inclined to have a better relationship with the anti-Hitler Allies and agreed not to touch some areas in Eastern Europe which had been influenced by the West. Thus, the monarchies in Romania and Bulgaria were allowed to continue in existence; the Soviets tolerated it when a political party won in a free election in Hungary; President Eduard Benes of Czechoslovakia was allowed to keep his position; and talks were held with Stanislaw Mikolajczyk, leader of the exiled Polish Government in London, with Mikolajczyk later becoming deputy prime minister in a new joint government.

But things did not happen the way they were planned. In September 1946, Bulgaria held a referendum in which the Communist-led Motherland Front gained victory. In January 1947 a general election was held in Poland. The United Workers Party won the election and Mikolajczyk fled the country. The elections in Bulgaria and Poland displeased the United States, Great Britain, and France, leading them to combine their areas of occupation in Germany. On the other hand, the Soviet Union was unhappy about the fact that the United States was pushing through the "Marshall Plan" in Europe. The confrontation between the United States and the Soviet Union was further intensified when President Harry S. Truman announced an aid package to Greece and Turkey, while Greece, which had just witnessed an

uprising led by the country's Communist Party, and Turkey, which had been receiving increasing pressure from the Soviet Union, both asked for joint control of the Black Sea and the establishment of a Soviet military base near the Black Sea. To make matters worse, an "Intelligence Bureau for the Communist Parties in Nine Countries" was set up in 1947. A Soviet representative, speaking on behalf of the Soviet Communist Party Central, said at an intelligence meeting that a crucial danger at the moment was overestimating the enemy's strength and underestimating one's own strength. From then on, the Soviet Union took a complete left turn in its policy toward Eastern Europe, helping communist parties to form governments, establishing socialist systems based on the Soviet model, and totally wiping out pro-Western elements in Eastern Europe. In 1949, the German Democratic Republic and the Federal Republic of Germany were founded separately in Germany, beginning the process of coexistence of two Germanys.

Thereafter, the struggle between two different social systems in Europe became the dominant feature in subsequent conflicts. The United States and other Western countries, in a campaign to "suppress" Soviet efforts to promote socialism, founded the North Atlantic Treaty Organization in 1949. When NATO included West Germany in the organization in 1955, the Soviet Union formed the Warsaw Pact with Socialist countries in East Europe. That was the beginning of two opposing military groups, each of which had the world's best military power.

The East and West each also set up its very own economic organization in an attempt to discriminate against each other. Both sides were also locked in an ideological battle. In order to prevent Western ideologies from infiltrating East Berlin, the Soviet Union tried twice without success, in 1948 and 1958, to kick Western influences from West Berlin. So in 1961 East Germany erected the Berlin Wall between the two Berlins, which for many years to come put a total stop to private exchanges with the West.

For a long time the Soviet Union regarded upholding the socialist system in East Europe as the primary point in its foreign policies. Whenever an East European country ran into trouble with its socialist system, the Soviet Union would react very strongly. It intervened militarily in the 1956 Hungarian incident and in the 1968 "Prague Spring" incident. The action by former Soviet leader Leonid Brezhnev to send troops into Czechoslovakia in 1968 to stop Czech leaders from carrying out reforms was commonly termed as "Brezhnevism."

History showed that the Yalta Agreement had not been taken seriously. Problems that arose later also needed to be settled, such as the existence of two Germanys, the dispute over demarcation of borders on Poland's western front, the confrontation between NATO and the Warsaw Pact, recognition by the West of the socialist system in Eastern Europe. In an effort to resolve these problems in their own way, the United States and the Soviet Union

both plunged into an arms race after the war. The Soviet Union broke the U.S. monopoly on nuclear arms in 1949, and during the late 1960's and early 1970's it manufactured enough strategic nuclear arms to equate itself with the United States. To Soviet leaders, the signing in 1972 of a treaty on limiting strategic arms meant that the United States acknowledged an equal military power on the Soviet side.

The military confrontation between the two superpowers has, to some degree, led some European countries to begin a serious search for solutions to outstanding problems. A few results were achieved. In November 1970, West Germany and Poland signed a treaty to declare the border along the Oder River and the Neisse River to be inviolable, thus settling the dispute on Poland's western border. In September 1971, the Soviet Union, the United States, Great Britain, and France signed the Berlin Agreement, in which the Soviet Union guaranteed free passage between West Germany and West Berlin, and the West recognized that West Berlin was not part of West Germany. This resolved the Berlin issue. In December 1972, the FRG and the DDR signed a treaty to recognize that "each country enjoys sovereignty only on its own territory." The two sides exchanged a "permanent representative," which legalized the existence of two Germanys and ended West Germany's claim to be the sole representative of Germany. The above solutions paved the way for talks on peace and cooperation in Europe.

The conference on European security and cooperation was attended by 35 countries, including the United States and Canada. A meeting on the foreign minister level was held in July 1972 and a series of meetings on the working committee level were held between September 1973 and July 1975. Finally, a summit meeting was held in Helsinki on 31 July and 1 August 1975, during which the "Final Document on European Security and Cooperation" was signed. The document covered four areas of problems:

1. With regard to European security, 10 principles were listed, which were "equality of sovereignty and respect for the rights of a sovereign country," "prohibition of the use of arms as a means of threat," "nonviolation of borders," "integrity of national boundaries," "peaceful resolution of disputes," "noninterference of internal affairs," "respect for human rights and basic freedoms," "equal rights and self-determination of the people," "cooperation between countries," and "faithful implementation of all obligations under international law." This category and the following third category were prepared by the first working committee and were jointly called "the first basket."

2. Cooperation in economy, science, technology, and environment included exchanges in commerce, industrial cooperation, scientific and technological cooperation, environmental protection, development of transportation, and promotion of tourism. This category, prepared by the second working committee, was called "the second basket."

3. With regard to security and cooperation in the Mediterranean, it was decided that Mediterranean countries should increase their cooperation to lessen tensions.

4. Cooperation in human rights and other areas, including contacts by concerned officials, travels, intermarriages, and exchanges in journalism, culture, and education. This category was prepared by the third working committee and was called "the third basket."

The Soviet Union paid more attention to the content in "the first basket." Soviet newspapers described the signing of the Final Document as indicating that the West had been forced to face up to the postwar political and territorial situations that had taken shape in Eastern Europe and Central Europe as a result of changes favorable to the Soviet Union in the race for military superiority. The West, on the other hand, chose to emphasize the "third basket," which sought peaceful transformation of Eastern Europe.

The 35 participating countries held three meetings to review the extent to which the Final Document had been implemented. The first meeting was held in 1977 in Belgrade, the second in 1980 in Madrid, and the third in 1986 in Vienna.

The Final Document of the European Security Conference resolved certain outstanding issues and paved the way for "detente" between the East and West. But this "detente" could not stand the test of time because of the race between the Soviet Union and the United States and the differences in the social systems of the East and West. In the late seventies the Soviet Union deployed SS-20 middle-range ballistic missiles in Europe, exported revolution to the Third World, and in December 1979 Soviet troops entered Afghanistan. The East and West were thus plunged into a further arms race and a race for regional control. The "Helsinki Process" thus saw itself stumbling on a rocky path.

March Toward Malta

In March 1985 Mikhail S. Gorbachev was elected general secretary of the Soviet Communist Party. He introduced "perestroika" in his foreign policy and set out to improve relations with the West. He argued that there should be no distinction of class in bilateral relations; he said the Soviet Union would stop exporting socialism and called on the West to stop exporting capitalism; he emphasized that the class interest should work to serve the interest of mankind; and he said countries with different social systems should rely on one another for coexistence. The Soviet Union took some initiatives toward world peace. In 1988 it signed a treaty with the United States to eliminate all middle-range ballistic missiles, and in February 1989 Soviet troops withdrew completely from Afghanistan. These measures helped reduce the intensity of the arms race between the superpowers, eased regional tensions, and provided a warmer-than-ever climate for East-West relations.

The Soviet Union's policy toward Eastern Europe was also adjusted in the direction of "perestroika." The Soviet Communist Party announced in its 27th Plenary Session in 1986 that socialism should be more flexible. Based on this, the Soviet Union had sharply changed its policies. Later, the Soviet Union proposed to allow all countries in Eastern Europe to decide their internal affairs provided that they pledged to stay in the Warsaw Pact and CEMA. Moscow also encouraged East European countries to "transform" their existing political and economic structures. The United States and its Western allies, maintaining that the Soviet Union's East European policy has taken a turn favorable to the West, quickened their paces for the promotion of a "peaceful transformation." Influenced by the Soviet Union and propelled by the West, East Europe saw in 1989 a series of changes that were the most dramatic since the war. Poland had a new government formed chiefly by Solidarity; The socialist Polish United Workers Party split and the newly formed Socialist Party pledged to adopt and carry out some of the platforms of the Social Democratic Party. In winter 1989, East Germany, Bulgaria, and Czechoslovakia all had a complete transfer of party leaders which resulted in large-scale adjustments of their domestic and foreign policies, and East Germany even opened the Berlin Wall. The Soviet Union welcomed all these changes and said that without the Soviet reform or the impressive changes in East Europe, there would not be a newer, better world desired by most people.

Gorbachev held a summit meeting with U.S. President George Bush in Malta in December 1989. According to the two leaders, the world was in the process of ridding itself of the "cold war," East-West confrontation was being eliminated, and Europe was marching toward a "second Helsinki." The Soviet Union sought an understanding with the United States to mutually "support current changes in East Europe without provocation." The United States expressed the same desire and agreed to a Soviet proposal to hold a European Security Conference meeting in 1990 instead of 1992 as scheduled.

Toward the end of 1989, just shortly after the superpower summit meeting was completed, an uprising flared up in Romania, and Romanian leader Nicolae Ceaucescu was overthrown and executed. Welcoming and praising the Romanian revolt, the Soviet Union quickly sent Foreign Minister Eduard Shevardnadze on a visit to Bucharest.

One can gain insight on future Soviet policy on East Europe and the whole of Europe by reading between the lines of a speech given by Gorbachev at a Warsaw Pact meeting. He said (during the Malta summit), "To unite the interests of all countries without caring what kind of political and social system each of them has is imperative and possible. Both sides have pointed out the significance of a pledge to stability. Stability not only can give all countries, without exception, security and confidence, but also can provide a future for a newborn, fragile trans-Europe structure." He proposed to "further

reduce the level of military confrontation, respect existing European boundaries, and pragmatically sustain the existing alliances—NATO and the Warsaw Pact." Gorbachev further said at a Soviet Communist Party Central Committee meeting that "the Soviet Union will not abandon East Germany, because East Germany is strategically important and a member of the Warsaw Pact. People must orient their positions on the basis of the reality formed after the war—the existence of two sovereign German nations and that both are members of the United Nations. Any deviation from this reality is dangerous because it could lead to instability in Europe."

The underlying significance of the Malta summit was being observed and studied by people. Future Soviet policy on Eastern Europe and the entire Europe could be to stabilize the situation in Eastern Europe, reduce East-West confrontations, establish a "pan-European house," and seek East-West cooperation. All these would be done on the basis of maintaining the relationship of alliance between the Soviet Union and Eastern Europe. But, what further will happen in Eastern Europe and what impact the changes will have on Europe and the whole world remain to be seen.

Shanghai Orchestra on Goodwill Tour

*OW1604182690 Beijing XINHUA in English
1423 GMT 16 Apr 90*

[Text] Shanghai, April 16 (XINHUA)—A 130-member delegation from the Shanghai Philharmonic Society left here today for Leningrad for a goodwill visit and performances upon invitation.

This is the largest group of artists from China to visit the Soviet Union since the past two decades.

Shanghai and Leningrad established sister city relations in December 1988.

PRAVDA Criticism of U.S. Pressure on Lithuanian Issue Noted

*OW1604134590 Beijing XINHUA in English
1157 GMT 16 Apr 90*

[Text] Moscow, April 16 (XINHUA)—The Soviet Union will not succumb to U.S. pressure on the Lithuanian issue; otherwise Washington will use it as a precedent to continue its "arbitrator" role, a leading Soviet newspaper said Sunday.

In a signed commentary, the Soviet newspaper PRAVDA criticized some U.S. political observers for linking the Lithuanian issue with Soviet-U.S. relations, saying the linkage will greatly damage bilateral ties between the two countries like the Tunguska Aerolite.

However, the commentary did not hold that they will regress to the "cold war" period.

It added that U.S. President George Bush and his men have soberly resisted pressures from Congress where

some right-wing political forces, with ulterior motives, seek to use the Lithuanian nationalists as hatchet men in an attempt to split the Soviet Union and throw it into a civil war.

It urged the United States to show restraint and understanding on the Lithuanian issue in the way the Soviet Union has done.

NORTHEAST ASIA

Mongolia Reports Rising Crime Rate

*OW3003225090 Beijing XINHUA in English
1619 GMT 30 Mar 90*

[Text] Ulaanbaator, March 30 (XINHUA)—Mongolia's Public Security Minister Jamsranjab said today that the crime rate is rising in the country, stressing the need to reinforce police strength.

Jamsranjab told local reporters that criminal cases had increased in recent months. In Ulaanbaator, for example, the crime rate rose 4 percent in the first quarter of this year, he said.

The increase in crimes involves a higher rate in gang-crimes which were better organized, the minister added.

He said that "democracy" and "openness" had brought positive results to the country, while lax discipline and irresponsibility continued to emerge in all levels of Mongolia's society.

It was necessary to take measures to strengthen the police force, the minister pointed out.

He told reporters that reforms had been enforced in the Ministry of Public Security since 1984, and that more than 40 departments under the ministry were canceled over the past two years.

Mongolian Decree on Demonstrations Reported

*OW0804080090 Beijing XINHUA in English
0731 GMT 8 Apr 90*

[Text] Ulaanbaatar, April 8 (XINHUA)—Mongolian citizens can take part in demonstrations or rallies aimed at developing and consolidating the state apparatus and in the interests of the working people.

This is contained in a decree by the chairman of the Presidium of the Great People's Hural and published in the chief newspaper "UNEN" here today.

The decree said demonstrations or rallies can be organized by the state, political parties and mass organizations, or by individuals on a voluntary basis, but an application for approval should be submitted to local governments concerned seven days in advance.

The decree defined those demonstrations or rallies as illegal that are against the state Constitution, detrimental to friendship with other countries and to the unity of the

Mongolian people, threatening state security or people's safety, and disrupting people's tranquility or the normal work of a government department.

No one is allowed to stage rallies and demonstrations in the name of the state or any other political party or mass organization, the decree said, adding that during the demonstrations and rallies, the health of the people, state and individual properties, historical relics should be protected and no firearms will be used.

Those who organize any demonstration or rally which breach the law and disrupts social order are liable to punishment by law.

WEST EUROPE

West Europe's Strategy for East European Integration

90ON0385A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese 16 Jan 90 pp 23-25

[Article by Wang Jinbiao (3769 6855 6977): "West Europe's Integration Strategy for East Europe"]

[Text] *The purpose of the "integration strategy" is to eventually "integrate" East Europe into a new European order which takes Western values as its foundation and the European Community (EC) as its core. The main tactics now being used are a "human rights" offensive and economic bait.*

How the Situation Came About

West European nations have been keenly interested in the reforms that Gorbachev has been pushing on the basis of his "new thinking" ever since he came to power. In the beginning, most countries maintained a "watch and wait" attitude. By 1988, they had come to the consensus that Gorbachev's "sincere" reforms had presented a "unique historical opportunity" to the West. In order to take full advantage of the opportunity, West Europe had to formulate a common strategy. The highest think tank in West Europe, the "European Strategy Organization," [ou zhou zhan lue zu zhi 2962 3166 2069 3970 4809 4930] delivered to the governments of the West European nations a 137-page report which argued that West Europe had to come up with a coordinated response to the changes in the Soviet Union. It argued that in the area of economic links, they had to deepen the Soviet Union's dependence on the West, and in politics, they had to use "human rights" as the foundation upon which to build a unified all-European base in coordination with the Soviet Union. Subsequently, the leaders of West Germany, France, the UK, and Italy carried out consultations in a series of bilateral and multilateral meetings. In late April 1989, at the urging of Jacques Delors, president of the Commission of the European Community, and Belgian Minister of Foreign Affairs Leo Tindemans, the 12 EC foreign ministers held a meeting in Luxembourg to carry out a comprehensive

study of West Europe's overall political and economic strategy vis-a-vis the Soviet Union and East Europe. The Council of Ministers of the European Communities declared that the EC and its member nations would come up with a constructive response to the political and economic reforms in the Soviet Union and some countries in East Europe.

In the process of exploring and studying strategy vis-a-vis the Eastern bloc, West Europe reviewed the situation of the two blocs over the last 40 years and concluded that the breadth and speed of change in the world today is "unprecedented." In the East, the "empire of the Soviet Union" is disintegrating, and the countries of Eastern Europe have plunged into political and economic crises. In order to secure the funds and technology of West Europe, some leaders in Poland, Hungary, and Yugoslavia have publicly expressed their desire to join the EC. West Europe feels strongly that this represents an extremely rare "historical opportunity" for it to "integrate" the East with the West.

Some West European leaders such as Helmut Kohl also feel that "the cold war has ended," that "the European order is now changing," and that West Europe itself must take the initiative to "plan Europe's future." West German Foreign Minister Hans-Dietrich Genscher has repeatedly emphasized that Europe is in the middle of three evolutionary changes: the unification process of the EC, the reform movement in the Soviet Union and East Europe, and the approximation of East and West Europe. He has stated that it is necessary to convert these three processes of change into a "driving force" that will push forward the process of unification of all of Europe, and that a new European order, with the EC as its core, must be established. Some people in West Germany's ruling party advocate that the EC be opened to the East so as to admit Hungary, Poland, Czechoslovakia, and the German Democratic Republic. They favor "the establishment of an alliance of nations from Poland to Portugal." They want to make East Europe establish "national structures based in freedom, democracy, and the rule of law." France's minister of foreign affairs, Roland Dumas, advocates pushing "change" in East Europe and "establishing a new European order in a peaceful manner." In May 1989, French President Francois Mitterrand called on West Europe to "take bold action" to allow the countries of East Europe to join the European Council in some form or another after it has been reconstructed. Later, he expressed approval for the idea of letting the Soviet Union, Poland, and Hungary join the International Monetary Fund and the General Agreement on Tariffs and Trade, thereby first incorporating them into the international organizations that occupy positions of leading importance in the West. Recently, Mark Eyskens, the new Belgian minister of foreign affairs, called for the establishment of a "European confederation" which would be based on the EC and would include the countries of East Europe. In late May, a meeting of NATO leaders used a "political declaration" and an "overall program" to express its

acceptance of a West European policy for East Europe of peaceful evolution characterized principally by "integration." The fundamental ideology behind this strategy requires a new model of East-West relations that is based on a foundation of cooperation, peaceful competition, human rights, and political freedom, and whose core is the EC.

New "Marshall Plan"

In tandem with the implementation of the strategy of evolution described above, West Europe launched a massive foreign policy offensive against the East in the latter half of 1988. In June 1988, the EC established official relations with the Council of Mutual Economic Assistance (CEMA), and signed economic and trade agreements with Hungary and other CEMA countries in which it offered favorable treatment. Subsequently, West European leaders, especially those in Germany and France, praised Gorbachev's idea for joint construction of a unified Europe and expressed their willingness to make an effort to explore the joint construction of a unified, all-European based concept. West European leaders also got engaged in a "Soviet Union visit spree" and a "loan spree." Some countries advocated carrying out a new "Marshall Plan" for the Soviet Union to support its reforms. In the latter half of last year alone, loans by West European countries to the Soviet Union reached nearly \$10 billion, a truly rare postwar occurrence.

In July 1989, a meeting of heads of state from seven Western countries jointly formulated an enormous, concrete aid plan to support the reform process in Poland and Hungary, and entrusted the Commission of the European Community with responsibility for this project. On 26 September 1989, the Commission of the European Community proposed the "Lighthouse" plan, which called for 24 Western nations to take coordinated action to aid Poland and Hungary. These 24 Western nations have already provided \$1 billion in aid to Poland and Hungary, and in 1990 they will supply Poland and Hungary with another \$600 million in aid. In September and October 1989, several Western nations, and especially some nongovernment leaders from West Germany, France, and the United States, strongly urged the West to greatly increase aid and implement a "Marshall-style" plan. Former West German Chancellor Helmut Schmidt even called on the West to give Poland and Hungary \$8-10 billion in economic aid per year, and he stressed that, for the sake of the future of Europe and the West, the West must "have the courage to make sacrifices" and to let Poland become an associate member of the EC. President Mitterrand called for the establishment of a European investment bank and the issuance of "Euro-Poland Unity Bonds." He also proposed that the EC formulate a plan by which every EC member country would take responsibility for providing aid to every region and city in Poland. Former French President Valéry Giscard d'Estaing proposed the establishment in Warsaw of a "Euro-Poland Bank," which would obtain long-term, low-interest loans of \$5-8 billion for Poland.

U.S. Government officials also formulated a "Little Marshall Plan" to aid Poland after Solidarity organized its government. Beginning in October, Western nations one after another affirmed their own plans to provide medium- and short-term loans to Poland and Hungary. The Federal Republic of Germany provided \$1.5 billion in loans to Poland, and canceled \$600 million of Poland's previous debts. The FDR also supplied Hungary with \$1 billion in loans. France supplied Poland with \$600 million in loans. The United States supplied \$738 million in loans to Hungary. Italy provided Poland with \$400 million in loans. Japan supplied 20 billion yen in loans to Poland and Hungary. Other Western nations such as Sweden, Canada, Norway, Denmark, Finland, Australia, and Iceland also announced aid figures.

Strategies and Methods

To categorize the issue, the primary tactics adopted by West Europe in order to carry out its "integration strategy" include the following: 1) Develop cooperation in every area with the Soviet Union and East Europe. Focus on long-range strategic interests. Promote gradual, peaceful change in the Soviet Union and East Europe. Avoid causing turmoil and loss of control through excessively turbulent or rapid change. 2) Make the "human rights issue" a major component of policy toward East Europe, and make it the foundation of a unified European base. Exert pressure through the "human rights issue" to push for change. 3) Incorporate promotion of arms control and troop reductions into the strategy for peaceful evolution in the East. In order to reduce the domestic forces of resistance in the Soviet Union and East Europe to reform, West Europe is now working hard to achieve significant progress within the next one to two years in negotiations on conventional force reductions in Europe.

West European methods can basically be categorized under the following points: 1) West Europe is currently paying special attention to helping the Soviet Union and East Europe develop food and consumer goods industries in order to relieve domestic pressure in the Soviet Union and countries of East Europe. The EC has already formulated a huge concrete plan to supply two years of food aid to Poland, which has the worst problems with food supply. 2) West Europe is supplying financial aid in order to spur the Soviet Union and East Europe to turn to a "market economy." The key focus is being placed on giving direct aid to privately run enterprises. 3) Carry out contacts, dialogue, and cooperation with the Soviet Union and East Europe on various levels and through various channels. Encourage and support the East to open up society and carry out political, economic, and human rights reforms. 4) Strengthen cultural, educational, and academic exchanges. Seek to establish cultural centers in the Soviet Union and the nations of East Europe. Spread Western values. Encourage the Soviet Union and East Europe to send graduate students to Europe and the United States to study democratic systems. Train technical and management personnel for the Eastern nations. Spread practical Western knowledge

and experience which can accelerate change in the East, including how to compete in elections. 5) Treat each country differently as conditions demand. West Europe has targeted Poland and Hungary as key aid recipients. It is hoped that they will "lead the flock" along the path of peaceful evolution, and will serve as experimental "models." Nations that are seen by West Europe as being adamantly opposed to reform are being criticized in the area of human rights, and are being isolated and attacked. 6) Take advantage of relaxed internal control in the Soviet Union and the countries of East Europe to openly carry out contacts with and raise the influence of the leaders of other political parties, people with different political views, religious figures, and West European ethnic groups in these countries.

In short, West Europe is attempting to use the precipitous change in East Europe to vigorously push its "integration strategy" and to establish a "European order" with the EC as its core. Its appetite cannot be considered small, but the outcome cannot yet be foretold. One thing is certain, though: Because various forces are competing to guide the establishment of the "new European order," there will be a period of intense sparring and head butting as Europe swings from the old situation to a new one.

EAST EUROPE

1989 'Worst' Year for East European Economies Since War

OW1804011890 Beijing XINHUA in English
0025 GMT 18 Apr 90

[Text] Geneva, April 17 (XINHUA)—Eastern Europe had its worst economic year since the war in 1989 and faces even harder times ahead in the near future, according to a report published by the United Nations Economic Commission for Europe.

The report, released in both Geneva and New York, said the political changes there and in the Soviet Union had created major uncertainties, aggravating the economic problems. There could be an even worse recession this year and even in the best case of the Soviet Union there would be "vigorless growth."

Apart from Czechoslovakia and Democratic Germany, production either fell in Eastern Europe or remained stagnant while it rose only 2.5 per cent in the Soviet Union, which was considerably less than forecasted.

The ECE said the recession was caused by social and political upheavals, worsening of the control of the microeconomy, the impact of budgetary deficits, and the deterioration of domestic market imbalances.

"While political changes can take place very rapidly, economic adjustment is going at a very slow pace. The central-planning economic system has been dismantled so quickly that new market mechanisms have not been able to keep pace," the ECE report concluded.

SFRY Communist Head Criticizes Internal Party Disarray

HK1504083290 Beijing RENMIN RIBAO in Chinese
2 Apr 90 p 4

[Dispatch by reporter Yan Zheng (0917 2973): "Yugoslav Communist League Holds Plenary Session to Discuss Continuation of 14th Special Congress"]

[Text] Belgrade, 30 Mar (RENMIN RIBAO)—The Yugoslav Communist League [YCL] held its plenary session today to discuss continuation of the 14th special congress.

The 14th special congress of the Yugoslav Communist League held in January of this year adjourned 23 January because of the opposite views and of the Slovenian representative walking out of the meeting. Later, the communist league of Slovenia and Croatia refused to attend the plenary session because they openly declared themselves as independent political parties. Moreover, the communist league of Macedonia and Bosnia and Herzegovina held that it would not be in keeping with the YCL constitution if the representatives of all the Republics to the central plenary session do not participate. Hence, they proposed that the plenary session be postponed or change it to a consultative work conference. Because their proposal was rejected, the representatives of these two republics did not attend the session. In fact, only the representatives of Serbia, Montenegro, Vojvodina, the People's Army, and three representatives from Macedonia including YCL President Pancevski, totaling 87 persons, were present at the session which was not enough to form a quorum for making decisions.

In his report to the session, Pancevski pointed out that the suspension of the 14th special session is a major political event in YCL history. It has evoked the indignation and discontent of the broad ranks of party members. Hence, it is necessary to find the common point of mutual understanding patiently and with a sense of responsibility, continue the 14th special session, and lay the conditions for the rapid reform of the YCL. He stressed: We cannot yield to certain forces or proceed from the stand of sabotaging the constitutional system, splitting the communist league organizations, and negating its historical role to exert pressure politically and through propaganda.

Lastly, the session adopted a message to all YCL members and organizations at all levels, calling on all members to contribute to the existence and development of YCL and offer proposals for solving the problems.

The session proposed holding another plenary session on 14 April to discuss the suggestions made by various fields and strive to convene the 14th extended session before the end of April.

SUB-SAHARAN AFRICA

Choices Facing de Klerk Regime in South Africa Viewed

900N0409A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No. 1,
13 Jan 90 pp 41-46

[Article by Wang Yingying (3769 7727 7727): "South Africa at the Crossroads"]

[Excerpts] South Africa is now at a crossroads: either to make thoroughgoing reforms and eradicate the apartheid system, or to continue to make effective improvements in order to mitigate contradictions, or to refuse to make any concessions to the great number of blacks. No matter what choice it makes, the choice will be full of risks and difficulties. Because the forces among the whites who oppose the uprooting of the apartheid system are still very powerful, the day that full racial equality will be achieved will not come very soon.

After going through a short period of relative tranquility, South Africa in 1989 passed through an eventful year. Beginning with President Botha's hospitalization for illness at the start of the year, the power struggle in the white ruling clique, particularly in the National Party, intensified. Contradictions came out in the open, in the end causing Botha to resign and the presidency to change hands. At the same time, many changes occurred in South Africa's internal and external policies. People universally concluded that the Botha era, which had lasted for 11 years in South Africa, had obviously already come to an end. What the trend of developments in South Africa will be in the future, how far the new regime can go with regard to the question of handling the apartheid system—this basic national policy—or, to put it another way, what plan the South African authorities actually have with regard to the question of changing South Africa's status quo—these questions await further observation, and, at the same time, additional research is required.[passage omitted]

II. The Issues Explored and the Trend of Developments in South Africa's Situation

The international community has followed with close interest the striking changes in South Africa's situation over the past year, and the focus of this attention has been on the new president, de Klerk. Indeed, de Klerk's words and some of his attitudes give people the impression that South Africa is painfully determined to accelerate the pace of reform and to firmly end the apartheid system. What actually will be the future trend in South Africa? Of course, further observation is awaited. However, there are signs that can explain some questions.

First of all, looking at the overall situation, we see that the changes in South Africa in the past year show that within the ruling party the position that demands acceleration of reform, opening a dialogue with the blacks and thus mitigating racial contradictions, improving South

Africa's international image, and seeking a way out has prevailed. The trend for a political solution of South Africa's internal problems is growing. More and more people in South Africa are advocating the abolition of the apartheid system through peaceful democratic change. In this respect, because of international influence, great progress has been made in the political solution of regional conflicts, and China and the Soviet Union, each proceeding from its own interests, have exerted influence on the Frontline States. Even if the economic sanctions on South Africa imposed by the United States and Western countries are limited, in the final analysis they have had a bad effect on South Africa's economy. Therefore, to extricate itself from its isolated position, South Africa needed to end the Botha era and, with a new attitude, win the sympathy and benefits of the developed Western countries, slowing down the external pressure. On the other hand, the long antiapartheid struggle by the blacks in South Africa has also weakened South Africa's economy. Botha's "stuff" had gone down a blind alley, and the South African white regime needed to change its tactics in order to mitigate its contradictions with the blacks.

However, if one were to think that the changes in the past year showed that a qualitative change had taken place in the authorities' policy, that would be completely unrealistic. From a look at de Klerk's words and deeds, we see that, on the one hand, he has promised the people to build a "new South Africa" "without racial oppression" and to give blacks the right to participate in government and political affairs; and, on the other hand, he has refused to accept the blacks' demand for one person, one vote. This is because if he made this concession it would mean that in the future South Africa could have a black president, and this is something that de Klerk has always resolutely opposed. Also, on the question of holding talks with the African National Congress [ANC], de Klerk has firmly demanded that the precondition be that the ANC renounce armed struggle. In addition, the so-called "tolerant" attitude of the South African authorities in the past year does not prove that they are prepared to take any essential actions to uproot the apartheid system, and so the arrival of the "new South Africa" is not a reality.

Then, what is de Klerk's real intent? In the final analysis, how far is he prepared to go?

de Klerk is generally thought to be conservative in ideology. He came from a bureaucrat's family of the Dutch white National Party in Transvaal Province. From 1982 on he has been the chairman of the National Party in Transvaal Province. This province occupies an important position in South Africa's political life. It is the province with the most members in the white Parliament, and it is the supreme headquarters of the conservative forces in the National Party and the rightwing opposition parties. De Klerk's position has always been that the authority of the white clique cannot be encroached upon, and he has always opposed black majority rule in South Africa. In 1987, when he was

minister of national education, he once banned anti-apartheid activities in school by students. At the same time, politically he belongs to the practical faction, and he understands that "to mitigate the demands of the blacks, reforms must be made." Therefore, from a look at his position since he came to power, what South Africa needs is gradual reform and not thoroughgoing transformation.

Next, even if the current situation in South Africa is not perfectly clear, it still shows that South Africa is at a critical historical stage, or to put it another way, at a crossroads. The new South Africa has realistically before it in the future three roads: simply speaking, either effecting a thoroughgoing transformation and abolishing the apartheid system; or only accelerating reform and mitigating internal and external contradictions without shaking the foundation of the apartheid system; or refusing to make any concessions to the blacks and completely safeguarding the whites' privileged position. No matter what choice the South African authorities make, the prospects are beset with difficulties and full of risks.

Obviously, de Klerk will not choose the third road, because racial discrimination is loathed by all people in the world, and South Africa's internal and external conditions no longer permit the rightwing conservatives to obstinately uphold their racist stand, and the rightwing conservatives' policy obviously does not conform to the trend. However, it must also be seen that this extreme conservative possibility is not completely nonexistent, because the rightwing forces among whites are still fairly powerful—the increase in rightwing seats in the 1989 general election illustrates this point. Therefore, if their fundamental interests are touched and their ruling position is endangered, it is possible that the rightwing conservatives will take extreme measures to block reform, or will either force the de Klerk regime to draw close to the rightwing conservatives or to step down. Although at present it looks as if this possibility will not become reality, the fact that the Botha regime in its later period was forced by rightwing pressure to strengthen its suppression of the blacks and to slow the pace of reform is an example.

As for the first choice, it does not now look very likely. First, the position stated previously by de Klerk determines that he will not make any revolutionary changes. Second, and more critical, is the fact that at present South Africa does not possess the conditions for a thoroughgoing transformation. Even if inside South Africa the mass struggle of the great number of blacks causes the authorities to pass through unhappy days, because the black forces are still fairly scattered, they lack a highly unified, powerful organization and leadership. In addition, with the authorities' brutal suppression under the state of emergency during the past three years, the blacks' pressure on the authorities has not reached a level that would force them to immediately abolish the apartheid system. Moreover, although the international sanctions have weakened South Africa's

economy, forcing it to continue the reforms, because South Africa's economic forces are comparatively solid and it is rich in natural resources, and also because the West's sanctions have gaps that can be bored into, the sanctions have not been sufficient to make South Africa decide to abandon the apartheid policy, which for several centuries has brought enormous benefits to the white ruling class.

Therefore, it looks as if, for a period of time in the future, the de Klerk regime will still adopt a policy that, while accelerating the pace of reform, does not touch the foundation of the apartheid system, and will not abandon the policy of suppressing at necessary times the blacks' struggle. De Klerk could continue to strike some poses—for example, the release of black leader Mandela, agree to the precondition that certain blacks proposed for taking part in talks to revise the Constitution, give blacks a limited participation in government and political affairs, and so forth. However, the problem now is that Botha, who was in power for 11 years, abrogated those apartheid laws and decrees that were highly unequivocal, and the remaining ones are "forbidden zones" that entail a lot of risks and are hard to break. Botha stopped at this point. Where will de Klerk start, and will he dare to start? Specifically, of the four major laws acted as the mainstays of the apartheid system—"Population Registration Law," "Group Residency Law," "Law Prohibiting Interracial Marriage," and "Pass Law"—the last two were abrogated during the Botha regime. The first two laws stipulate that the races be differentiated by appearance and skin color, and that they register as separate types and live in separate areas. The blacks, who constitute more than 70 percent of the total population, are assigned to live on the poor land ("reservations"), which is 13 percent of the country's total area, while the whites, who account for 13 percent of the total population, occupy the fertile land, cities, and mines, which account for 87 percent of the country's total area. These two major laws are precisely the basic legal foundation for the apartheid system and the policy of separate development. In addition, the political policy of depriving the blacks of their universal suffrage rights is the basic policy for safeguarding the position of the white ruling class. Abandoning these laws and policies means abandoning all the whites' vested interests and privileges. Not only would the ultrarightists not agree to this, but also a considerable majority of the whites would not now approve. Therefore, when de Klerk's reforms reach a certain point, I'm afraid it will be very difficult for them to advance a step further. However, if de Klerk, after he finishes striking some poses, does not take strides to advance, the great majority of blacks in South Africa will not remain tranquil for long. There will be another upsurge in the blacks' struggle and new turmoil will erupt. This likewise poses a threat to the stability of the de Klerk regime. Therefore, no matter what, the new people in authority will not pass through very happy days. Of course, by comparison, de Klerk's chosen policy of "carrot and stick" could be a little less risky. Just as some moderates in South Africa reckon, what de Klerk

most fears is economic collapse. As for the "black revolution," he is not particularly frightened of it, because the authorities possess the backing of the armed forces and police, in which the whites are in the majority, and other instruments of dictatorship.⁵

Summing up what has been said, the characteristics of the situation in South Africa for a period of time in the future, I fear, will still be, on the one hand, an acceleration of the pace of reform, and, on the other hand, the safeguarding of the cornerstone of the original system; on

the one hand, doing everything possible to mitigate contradictions, and, on the other hand, finding it difficult to fundamentally eliminate contradictions.

Footnotes

[four footnotes omitted]

5. [Paris.] France's NOUVEL OBSERVATEUR, 7 September 1989.

Parties Called Democratic in Name Only

90CM0004A Hong Kong CHENG MING
[CONTENDING] in Chinese No 143, 1 Mar 90
pp 36-37

[Article by He Zhenming (6320 6297 2494)]

[Text] After the Eastern European Communist parties fell from power, the Soviet Union announced that it was ending one party rule and would establish a "direct presidential election system." But in this "grand climate" of worldwide political reform, the Chinese Communists still declare that they will maintain one party rule, and they further emphasize that they underwent decades of war and struggle to obtain political power, without the leadership of the Chinese Communist Party, civil wars might again erupt. The point is: whoever wishes to dispute the CPC's right to rule China must rely on guns to determine the winner and loser.

The Party Constitution Is Clear: Accept the Authority of the CCP

To reduce the attacks on the CPC's stubborn adherence to "one-party rule" from within and without, the Communists have recently been vigorously disseminating the propaganda that the CPC leads a "multi-party cooperative system." But if that is the "CPC leadership," where is the cooperation? Actually the other parties must still operate under the "leadership" and control of the CPC—this is a dominating relationship, not a cooperative one.

Recently, eight so-called "democratic parties" in mainland China have each held meetings of the party leadership to declare their support for the CPC's "multi-party cooperative system." They are fearful that tardiness in declaring their loyalty may create trouble for them.

One of the eight democratic parties—the China Association for Promoting Democracy ("min jin" for short) says in its constitution: "Min jin is a democratic party in the patriotic united front under the leadership of the Chinese Communist Party." It also says: "This association was founded with the help of the Chinese Communist Party on 3 December, 1945." The word "help" is an open admission that min jin is an organization completely controlled by the CPC.

Another "democratic party"—the Chinese Peasants' and Workers' Democratic Party ("nong gong" for short) also has clearly written in its party constitution: "We must accept the leadership of the Chinese Communist Party and follow the socialist road." Among the duties of party members: "To love the People's Republic of China, to support socialism, to support the Chinese Communist Party and carefully study Marxism-Leninism and the thoughts of Mao Zidong."

The Jiusan Society ("9.3" for short) in its new constitution says: "This society is an organizational component

of the Communist Party's patriotic united front." It further says: "We want to be a good assistant to the CPC."

The Revolutionary Committee of the Chinese Kuomintang ("min ge" for short) in its latest "Six Major Resolutions" writes: "Under the leadership of the CPC... abide by the spirit of the Third Plenary Session of the 11th Central Committee and the 12th Party Congress, support the building of socialist modernization as the central goal... the party congress resolution still hopes Mr. Chiang Ching-kuo and the Taiwan KMT authorities will recognize the greater goals of our people and once again join hands with the CPC in cooperation, to bring about a speedy reunification."

The China Democratic League ("min meng" for short) in its new constitution says: "min meng is an organizational section of the revolutionary patriotic united front under the leadership of the CPC..."

The China Democratic National Construction Association ("min jian" for short) at its second plenary session used the three words "listen," "accompany," and "follow" in its principles, as follows: "Listen to the words of Chairman Mao, accompany the Communist Party, and follow the socialist Road."

The Taiwan Democratic Self-Government League ("tai meng" for short) writes in its new constitution: "This league will offer advice and suggestions to the CPC toward resolving the question of reuniting China."

The China Zhu Gong Party ("zhi gong" for short) in its newest plenary session resolution says: "zhi gong ... under the leadership of the CPC holds high the flag of patriotism and supports the four basic principles..."

These so-called "parties" ought to have independent platforms and be actively fighting for rights; otherwise they are nothing but study societies. Judging from their platforms, though the aforementioned eight democratic parties have definite political goals, they all indicate an absolute acceptance of another party's leadership (the CPC); hence the relationship between the CPC and these democratic parties is more similar to the relationship between father and son or prince and adviser.

The Principle Players Are People Without Power

In order to conceal their "one party over all" monopoly on political power, the CPC granted the leaders of the eight democratic parties empty official titles with no real power; the six who were granted the title of "Vice-Chairman of the Standing Committee of the National People's Congress (NPC)" are as follows:

"Min ge" Chairman Zhu Xuefan [4281 1331 4636], born in June, 1905; native of Jinshan, Shanghai; graduated from Shanghai Law School; studied at Harvard University. He was a well-known labor union leader in the thirties and forties and received the support of the Shanghai secret society leader Du Yuesheng [2629 2588

4563]; he was the chairman of the Shanghai Federation of Labor Unions. In 1948 while attending the World Labor Conference, he was seduced by a secretary (a Communist agent) and they began a clandestine relationship; as a result he joined the Communists' united front and that year became a member of the Communist Party. In 1949, after the CPC had established a government, he was appointed Minister of Posts and Telecommunications, but during the Cultural Revolution he was stripped of all his positions and in addition was subjected to a ruthless struggle. Thereafter, he was only allowed to hold paper shuffling positions. In 1988, he was appointed Vice-Chairman of the Standing Committee of the NPC.

"Min jian" Chairman Sun Qimeng [1327 6386 1322], born March, 1911; native of Xiuning, Anhui Province; graduated from Soochow University in Jiangsu Province with a major in law. He joined the CPC in 1950, and controls CDNCA through his dual party membership. In June of 1983, he became chairman of the standing committee of the Chinese People's Political Consultative Conference [CPPCC]. In April of 1988, he was elected chairman of the CDNCA central committee and became a Vice-Chairman of the Standing Committee of the NPC.

"Min meng" Chairman Fei Xiaotong [6316 1321 6639], born November, 1910; native of Wujiang, Jiangsu Province; graduated from Qinghua University Graduate School and earned a Ph.D. from London University in social anthropology; he is a well-known sociologist and professor. In 1958, he was drawn into the right wing and lost his position as a deputy to the NPC, and from this point on he learned, from this lesson, to be obedient, listened to the Party, and followed the Party. In 1985-86, he often accompanied (general secretary) Hu Yaobang on trips abroad. In April of 1988, he became a Vice-Chairman of the Standing Committee of the NPC.

"Min jin" Chairwoman Lei Jieqiong [7191 3381 3890], born September 1905; native of Taishan, Guangdong Province; received a Master's degree from the University of Southern California (her father was a Qing dynasty civil servant). In the beginning of Communist rule, she was active in the political arena; she was a member of the Beijing Municipality Consultative Committee, but because of her family background she could not win the trust of the CPC and therefore could only do consultative and women's affairs work. In April of 1988, she became a Vice-Chairwoman of the Standing Committee of the NPC, and that year also became a Vice-Chairwoman of the CPPCC.

"Nong gong" Chairman Zhou Gucheng [6650 6253 1004], born in 1898; native of Yiyang County, Hunan Province; graduated from Beijing Normal School; he is a well-known historian. In 1926, he was a teacher in Mao Zidong's Hunan peasant education movement. In 1927, after the KMT suppressed the CPC, he began a political movement, then moved to Shanghai to teach. In 1949, he entered the nong gong, and in 1979, had attained the

status of vice-chairman; in 1987, he took over. In 1988, at the age of 90 he became a Vice-Chairman of the Standing Committee of the NPC, but the opposing votes were numerous. Some said publicly that he should step down and retire, but he said he was still young and would not forego even this meaningless title.

"9.3" Vice-Chairman Yan Jici [0917 3444 1964], born in December of 1900; native of Dongyang, Zhejiang Province; graduated from Dongnan University. He is a noted professor and the first academician of the Chinese Academy of Social Sciences. He joined the CPC in 1980, and in 1983, he became a Vice-Chairman of the Standing Committee of the NPC; he uses his dual party affiliation to control "9.3".

Quite a Few People Are "Dual Party Members."

"9.3" is the party most tightly controlled by the Communists; it would seem that all the important members are also CPC members. On 8 February, "9.3" **honorary Chairman Xu Deheng [6079 1795 3801]** died of an illness; he had joined the CPC in March of 1979. "9.3" **Chairman Zhou Peiyuan [6650 1014 3293]** had joined the CPC all the way back in March of 1959, and subsequently became the assistant dean of Beijing University. In December of 1964, he was already a member of the NPC Standing Committee, and in March of 1980 he concurrently held the post of Party group deputy secretary of NPC Standing Committee. In 1982, he was given the position of Vice-Chairman of the CPPCC.

The leaders of the other two "democratic parties" were also drawn into the CPC camp with empty titles.

"Tai meng" Chairman Cai Zimin [5591 1311 3046], born in 1920; graduated from Waseda University in Japan; after participating in the Taiwan Uprising of 28 February, 1947, he escaped to mainland China. In 1963, he became Secretary of the Chinese People's Association for Friendship with Foreign Countries, and later rose to be the director. Since 1975 he has been an NPC delegate. In March of 1982 he became a counsellor stationed in Japan, and in January of 1985 he became a member of the NPC's China-Japan Friendship Subcommittee. It is said that when he was young, Cai Zimin promoted "three Don'ts"—the first "Don't" was "don't be an official," but nonetheless he has been nothing but a CPC official.

"Zhi gong's" new Chairman Dong Yinchu [5516 1377 0443] did overseas Chinese united front work for a long time. In May of 1985, he became Vice-Chairman of the Shanghai Consultative Committee; in February of 1988, he succeeded Huang Dingchen [7806 7844 5256] as "zhi gong's" chairman; Huang then became honorary chairman. **Huang Dingchen** was born in 1901 and early on went to Japan; he is a physician. In the 1920s, he was arrested and imprisoned for anti-Japanese activities. After he was released from prison in 1932 he joined the CPC. His clinic became a Communist underground spot for collecting and passing written materials and holding secret meetings.

After the Communist government was established, he became a CPPCC member, CPPCC Standing Committee member, and a delegate to the first, second, and third NPC. He retired in 1988 at the age of 87 and became an honorary chairman of the CPPCC but kept control of "zhi gong."

In recent days, a CPC mouthpiece has tried to make clear its "consistent" policy toward the democratic parties of "long-term survival for all, mutual governance, mutual reliance and devotion, and unity in honor and disgrace" by saying something about the 800 non-CPC members

who currently hold important posts all over; 14 of those are high officials at the provincial department level. Among these officials are the aforementioned individuals.

In truth, many of the high officials of these democratic parties have secretly worked for the CPC, a number of them are CPC members, and a few conceal their status as CPC members to further their ruse of being democratic. It is not difficult for those with a little political common sense to understand the reality behind this multi-party cooperative system!"

NATIONAL AFFAIRS, POLICY

Assessment of Economic Prospects for 1990

9004037A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 5, 22 Jan 90
pp 11-12

[Article by You Si (1429 1835): "The Economic Trend of China in 1990"]

[Text] The general trend of China's economy in 1990 will be slow recovery and low-speed growth.

It is estimated that this year industrial production may increase 5.5 percent, agriculture three percent, and GNP about 4.5 percent; the scale of fixed-asset investment will maintain last year's level; the actual increase rate of prices may reach 17 percent or thereabout; the domestic market will continue to stagnate and may gradually become normal in the second half of 1990; urban and rural residents' income will be slightly lowered or remain basically the same; the unemployment rate will rise to near five percent; financial deficits may exceed 10 billion yuan; fund-raising conditions will become even more difficult; export and import trade may still maintain a definite rate of growth; and the absorption of foreign funds may be expected to pick up slowly.

In order to stop economic overheating and increasingly serious inflation, in September 1988 China began to implement the financial and monetary retrenchment policy. Because of this and the influence of political disturbance between spring and summer 1988, the national economy has witnessed a substantial decline. In the fourth quarter of 1989, industrial production suffered negative increase. In 1989, the gross value of annual industrial output increased about seven percent as compared to that of the previous year, but the increased rate was about 14 percentage points lower than that of the previous year. This has caused problems such as the increase of unemployment, the reduction of residents' actual income, and the expansion of financial deficits. The situation is very grim. The year 1990 is a critical one in the implementation of China's rectification and improvement policy. What is the trend of economic development? Will the economy break away from the difficult position and get on the track of normal growth? Economic circles at home and abroad are extremely concerned about these issues.

Production and Investment

The general trend of China's economy in 1990 will be "slow recovery and low-speed growth." In view of the sharp decline in industrial production after September 1989, the government adopted the emergency measures of easing money supply, increasing loans, and strengthening production management. Over 100 billion yuan was released in three months, thus alleviating the shortage of working funds for enterprises. However, due to such factors as the continuing sluggish sales market and the low enthusiasm of managers and workers, it did

not play a marked role in stimulating the recovery of production. Instead, it increased stockpiling. At present, many industrial enterprises do not have enough orders to fully utilize their production capacity. If nothing unexpected happens, China's economy is not projected to have any great ups and downs this year. Industrial production may increase about 5.5 percent and agriculture three percent. The GNP may increase about 4.5 percent, about four percentage points lower than the average rate of the past 10 years.

China's agriculture is the industry that "stabilizes the nation." Both central and local governments take it very seriously. This year they will increase input by several billion yuan, expand the acreage of cereal crops by some 8 million mu, and substantially increase the supply of chemical fertilizer, pesticide, and plastic film. If we do not have severe natural disasters, our grain output may be expected to exceed 410 billion kg, an increase of more than 5 billion kg over last year.

In order to avoid causing new pressures on inflation, the demand of local governments and enterprises for expanding the scale of investment will continue to be restrained. It is estimated that this year the scale of total social fixed-asset investment will maintain last year's level of 410 billion yuan. However, considering the factor of the price increase of supplies, actual construction volume will be reduced by 15 to 20 percent. Investment structure will be tilted further toward the basic industries of energy and transportation. The investment of general processing industry will be somewhat reduced, and that of nonmanagement industries will be reduced by 30 percent or even more.

Price and Domestic Market

Inflation control measures have yielded initial results and the increase rate of prices throughout the country has been dropping month after month. Since October 1989, retail price index has dropped to one digit (18 percent for the whole year, slightly lower than last year's). The problem is that the decline of price level was achieved to a certain degree by relying on administrative control and increasing financial subsidies. According to the statistics of the departments concerned, for the decline of every percentage point in the retail price index of such metropolitan areas as Beijing, Tianjin, and Shanghai, financial subsidies need to be increased by 100 to 200 million yuan, which is a burden local governments cannot bear. According to the arrangement of state plan, the increase rate of retail price is supposed to be 14 percent this year, but it is very difficult to meet this demand. Currently the prices of a few major commodities are so low that they have seriously affected production, so they must be raised to a reasonable level. The fact that renminbi has depreciated over 20 percent against foreign currencies will also make domestic prices go up. It is estimated that the actual increase rate of prices may reach 17 percent or so this year.

In the first half of last year, the total volume of retail sales of social commodities increased 20 percent as compared to that of the corresponding period of the

previous year. In the second half, it made a sharp turn downward and suffered negative growth. In the whole year of 1989, it increased an average of nine percent or so over the previous year. After deducting the factor of price increase, it actually declined about eight percentage points. The sales of capital goods declined even more. The forecast of market trend for 1990 is that sales may be brisk at the beginning of the year because of the Spring Festival and that sales will continue to stagnate after the Spring Festival and may not become normal until the second half of this year. However, we must not eliminate the possibility of shaking up residents and triggering a local trend of panic buying because of price readjustment, interest rate adjustment, and supply reduction. After rectification, market order will improve, but it is also possible that circulation may be clogged due to the reduction of supply and marketing channels.

Residents' Income and Labor Employment

As the speed of production development reduces, it has become difficult to continue the steady and substantial increase achieved in the income of urban and rural residents in the past 10 years. "Tightening our belts" has become unavoidable. In 1989, after deducting the factor of price increase, workers' wage and peasants' per capita income actually declined slightly. Especially since the fourth quarter, the number of enterprises which have stopped production completely or partially has increased continuously. Incomplete statistics show that the number has exceeded 30,000 units and that workers are suffering because they have been paid only 50 to 80 percent of their wages. This situation is still continuing to develop. The central government has instructed all localities to assist them in all possible ways. If the goal for controlling price increases can be reached this year, the actual income of urban and rural residents may decline slightly or remain basically the same. Otherwise, there will be a substantial reduction.

Currently a prominent problem is that due to economic retrenchment and policy adjustment, it is hard to find jobs for millions of workers who are laid off every year. Moreover, due to many investment projects being cut, some enterprises suspending production, and some private enterprises and individual households going out of business, the number of the unemployed or persons waiting to find jobs has increased substantially. It is estimated that by the end of this year, the number of persons waiting to find jobs in urban areas may reach 7 million or so and that the unemployment rate will rise from two percent in 1988 to near five percent. This is a detrimental factor to maintaining the stability of society.

Finance and Banking

Over 80 percent of China's revenue comes from taxes and profit delivery of industrial and commercial enterprises. The reduction of industrial speed, the sales slump of market, and poor management have caused the economic returns of industrial and commercial enterprises

to decline markedly, profit delivery to reduce continuously, losses to double and redouble, and state financial sources to shrink. On the other hand, however, it is difficult to cut expenditure. Price subsidy alone costs as high as 60 to 70 billion yuan. State finance is faced with enormous difficulty. Deficits for 1989 may be close to 10 billion yuan, exceeding the target of deficit—7.4 billion yuan—set by the annual budget. China will begin to enter the peak period of debt repayment in 1990. This year China needs to retire billions of yuan in capital and interest payment on internal and external debts. This has undoubtedly increased pressures on state finance. The government has adopted many measures to increase income and reduce expenditure such as increasing the business tax rate of certain businesses, issuing more bonds, and clearing outstanding taxes, but they are hard to enforce. It is difficult to reverse the trend of declining enterprise profit rate, rising commodity circulation expenses, and increasing subsidies of various kinds. It is estimated that this year revenue will increase about seven percent as compared to that of last year, but expenditure will increase even more and deficit may exceed 10 billion yuan.

Since the Chinese government announced that it will continue to implement the financial and monetary "double-tight" policy, the amount of bank loans and money to be issued this year will generally maintain the level of last year's plan. In order to strictly control the scale of loans, the central bank will set guidance-style targets for specialized banks. Since money market is still going to be tight, industrial and commercial enterprises, especially small enterprises which are not run by the state, will have more problems raising funds. This year urban and rural residents' income will not increase easily; the rate of subsidy for value-guaranteed savings deposits will quickly drop to near zero due to falling prices, which will inevitably affect residents' desire to save. It is estimated that the total amount of savings deposits will increase only about 100 billion yuan, lower than the amount actually reached in last year—about 120 billion yuan—thus reducing the source of banks' credit funds.

Export, Import, and the Utilization of Foreign Capital

In 1989, under the condition of social disturbance, fund shortage, and deteriorating external conditions, China still scored good achievements. Its export increased seven percent; export and import were basically balanced with a little surplus; and foreign exchange reserve increased substantially. In 1990, the fact that renminbi depreciated by 21.2 percent against foreign currencies will encourage enterprises to export more; the slump of domestic market will also force enterprises to export more while the state policy is to give export and foreign exchange-earning enterprises priority in the supply of funds, energy, and raw materials. As long as we work hard to improve in such areas as product quality, packaging, and delivery date, we still can maintain a certain momentum of growth in export and export trade and avoid decline.

With regard to the utilization of foreign funds, we had great difficulties in 1989, but the number of foreign investment projects newly approved in 1989 and the amount of actual capital input still increased slightly. The situation was better than expected. This year the political situation at home will further stabilize for Beijing has lifted martial law. In order to continue to improve foreign investment environment, China may very soon make major changes in the Sino-foreign joint venture law and clearly stipulate that foreign investment will not be nationalized by China and that restrictions on the duration of joint venture will be lifted. In addition, although a few Western countries have not yet removed economic sanctions and some industrial and commercial personages still have a wait-and-see attitude toward China's political and economic situation, considering long-term strategy and their own interests, they all have a positive attitude toward developing economic and trade relations with China. Judged from this, in 1990 it is unlikely that the inflow of foreign funds will quickly resume the high level of the first half of 1989, but it is completely possible for it to pick up slowly on the basis of consolidating existing achievements.

Improvement, Rectification Affect Enterprises

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6 Mar 90 p 4

[Article by Ma Jun (7456 7486): "Enterprise Environment in Period of Improvement and Rectification"]

[Text] Even if initial results have been seen in all aspects of the policy of macro retrenchment, quite a few enterprises do not have the capability for readjusting their product structure, for promoting the rational reorganization of their reserves, and for making use of technological progress to improve economic results. For this reason, a series of reform measures with the goal of improving the enterprises' operating environment and of spurring the enterprises to improve economic results have been taken, which are objective demands for the economy's further development and which also will reflect the substantial parts of improvement and rectification in further promotion of reform.

The policy of macroeconomic retrenchment practiced in the period of improvement and rectification has already obtained results in all aspects of economic life. While the contradiction between total demand and total supply is tending to mitigate, inflation has basically been controlled, and initial results have been seen in sorting out and rectifying the circulation domain. Enterprises have a widespread feeling that they have difficulties similar to those that appeared in the past period of macroeconomic readjustment, such as shortage of funds, cooling off of sales, stopping or deferring projects, and so forth. What this article wants to point out is that behind these "retrenchment effects," the enterprises are facing some deeper, more thorny problems. Quite a few enterprises do not have the capability for readjusting their product structure, for promoting the rational reorganization of

their reserves, and for making use of technological progress to improve economic results, and they also lack sufficient motive power.

Readjustment of the product structure and the industrial structure in the retrenchment period faces a series of specific difficulties. The key to the stage after improvement and rectification is, under the premise of controlling the total amount, whether the product structure and the industrial structure can be effectively readjusted. This is generally acknowledged. Some comrades think that, following the reduction in total demand, many products for which sales were brisk under the circumstances of demand inflation have become unmarketable, the structural contradiction can be fully revealed, the enterprises will be under strong pressure, and now is the "golden age" for readjusting structures. This writer thinks that this assessment is too optimistic. In fact, that a product's sales go from brisk to nonexistent in itself does not mean that there cannot be an effective structural readjustment. The process of structural readjustment touches on the complex factors of the object, measure, and direction, as well as many other factors of readjustment, but not all these factors are presently advantageous.

First, among a considerable number of enterprises that have a certain degree of specialization, their principal goods face the problem of a market slump. It is impossible to use the existing equipment, raw materials, and manpower to switch to the production of more profitable products. With regard to these enterprises, even if funds poured in they would be unable to start up production, and the readjustment of the structure is more difficult. In quite a few industries, there has appeared a situation in which the entire industry is not booming, and thus within the industry and between the enterprises the leeway for readjusting the product structure is extremely narrow.

Second, under the conditions in which some product markets are not yet in a slump, the enterprises' product structure must be tilted toward the products in demand on these markets, which is bound to require a corresponding investment. This situation is not mutually exclusive with the widespread shortage of funds under the conditions of retrenchment.

Third, enterprise reorganization and enterprise annexation should become the main means of solving the problem, under the retrenchment conditions, of a large number of enterprises having reserve assets and ideal labor power. However, because in the existing management structure, which separates "branch and piece," there are no new reform measures, the existing structure of the contract retirement system of the localities, departments, and enterprises has been strengthened. Thus up to now, the role played by the circulation of reserve assets during the structural readjustment is still next to nothing.

Fourth, more worthy of attention is that it is definitely not an easy thing to determine the direction of a rational structural readjustment that is favorable for the long-term development in the future. During the fluctuations

in the total amount, changes in the demand structure are extremely prominent and the influencing factors are quite complex. This writer has defined an index called the "growth demand elasticity," and with it has calculated the size of the change in demand when there is a yearly change in the economic growth of each large category of products. I discovered that, in the process of changing from an economy in a year of a high growth in demand to an economy in a year of low growth in demand, the ratios of change in the demand for different types of products were clearly different, and from this were caused striking changes in the economic fluctuations accompanying the demand structure. This shows that, under the present circumstances in which there is a low rate of economic growth, even if readjusting the product structure in line with the current demand structure achieves a balance in the structure, once the economic growth rate rises again, the product structure after this readjustment will inevitably be in contradiction with the new demand structure.

The main factors in the formation of the current market environment for enterprises are the government's macroeconomic retrenchment policy and the administrative intervention of departments in charge at all levels of enterprises. The role that an enterprise's efforts can play in improving the business environment is extremely limited, and the enterprise's attitude is bound to be passive.

First, the banks have cut back and reduced the market demand for all types of products and some consumer goods. With regard to mitigating the difficulties stemming from the "demand" size, the enterprises widely take a "wait and see" attitude, and there is a serious shortage of funds.

Second, under the circumstances in the previous period in which the sales of some durable consumer goods (like color television sets) were brisk, the government imposed a "special consumption tax" aimed at the special administrative policy of "eliminating office resale at a profit" and with the goal of checking "excessively brisk sales." Within a few short months, while illegal activities of reselling at a profit were being cleared up, almost all the factories in China that produced color television sets became greatly overstocked, and a considerable majority of these factories stopped part of their production. However, the relevant departments in charge all along stuck to the practice of "protecting prices by holding down output."

Third, after some products were given a "special administration," the number of sales channels were sharply reduced, which also became the main reason for the situation in which although the markets in various places were "both soft and hard," and the enterprises were helpless. For example, the sales channels for color television sets, after the special administration was put into effect, were reduced to a tenth of the original number, and the channels in townships and villages through which sales could formerly be made were eliminated.

Fourth, the market slumps in various places cause a reaction in which the local governments swiftly put up strengthened regional trade barriers, so that the enterprises' efforts to seek survival by opening up outside markets are rebuffed everywhere.

Facing the abovementioned restricting factors of all kinds, the enterprises' usual reaction is to feel that they are helpless to improve the business situation, and some entrepreneurs say, "It is impossible for us to determine the economic results of an enterprise."

The existence of these problems will, in the next stage of the improvement and rectification, make the goals of promoting the rationalization of the enterprises' product structure and the state's industrial structure, of improving the enterprises' results, and of increasing the enterprises' income extremely arduous tasks. Our tentative idea is, with the aid of the initial results of the retrenchment policy, the tendency for price rises to slow, the slump in sales on the markets, and the improvement in the supply of imported goods, that we should, reliably and without losing the opportune moment, put forth a series of reform measures with the goal of improving the enterprises' operating environment and spurring the enterprises to improve results. One aspect of this is the objective demand for the further development of the economy; another aspect of it embodies the essential part of further promoting reform during the improvement and rectification.

First, strive to achieve a stable retrenchment policy and to prevent the reappearance of big rises and big falls. The main goal of the retrenchment policy is to control prices and to achieve a balance in supply and demand. After reaching a basic balance in supply and demand, we should make the maintaining of this balance a long-term goal of the macro currency policy and financial policy in the retrenchment period as well as after the retrenchment stage. For this reason, it is necessary to enhance the quantitative analysis with regard to the effect in the future on total supply and demand—within the next several months or a dozen months—caused by the changes in the amount of currency put into circulation, the total scale of credit, government expenditure, and other macroeconomic parameters.

Second, we must, by setting about reforming the management system, create conditions for the readjustment of the industrial structure and the product structure. At present a considerable part of the enterprises do not have the strength to maintain a livelihood, and their economic results are extremely poor. The departments in charge are taking various measures to prevent these enterprises from going bankrupt or being annexed; measures that, in fact, block the market mechanism from playing its regulatory role on changes in the industrial structure. We suggest that there should be a further clarification of the measures encouraging enterprises to annex or be annexed, popularizing the way of "rents" and "contracts" to integrate among the enterprises those that are close to each other in type, weakening the systemic

obstacles put up by the protectionism of departments and regions to the reorganization of enterprises, and truly making the transfer of reserves the basic means of readjusting the structures. In addition, besides selectively pouring in funds by means of bank loans to "start up production," we can consider setting up special funds to support the rational annexation of inferior enterprises by superior enterprises.

Third, grasp the opportune time. Set free the prices of commodities for which supply is greater than demand and for which supply and demand are in balance. One of the important goals of improvement and rectification, reduction of overheated demand, and a series of other retrenchment measures is to create advantageous conditions for future reforms. Now a large part of the durable consumer goods are unmarketable, for many raw materials supply and demand are low, and prices have fallen after a rise. This is an important opportunity for promoting price reform and for setting free the prices for this part of the commodities. At the outset there were no more than two goals for putting into effect the special administration of some products in urgent demand: one goal was to check price rises and curb inflation; the other was to prevent those who buy and resell from reaping profits. Once supply is greater than demand in these "special administration" products, the setting free of the business will not cause a rise in prices, there will not appear the phenomenon of reselling at a profit, and the mission of the "special administration" will have already been completed. Continuing to control the business channels and the fixed prices will make it impossible for the enterprises to get out of their difficult position. For this reason I suggest that we should at the appropriate time abolish the "special administration" of these products. Corresponding measures can be taken with regard to problems that appear after the business is set free. For example, after the special administration for color television sets was abolished, out of consideration for the abnormal state of the mass buying psychology at the present stage, we can continue to maintain the "special consumption tax" in order to prevent the appearance of large market fluctuations. However, under the circumstances of a market slump, we should flexibly readjust the level of the "special consumption tax" in order to truly attain the goal of having it "regulate" consumption.

Fourth, in line with the "Enterprise Law," further clarify and emphasize that the factory director responsibility system has not changed, and insure that the factory director's proper activity in making policy decisions concerning the enterprise's production and operation. With regard to the form and degree of the participation in management by the party committee, trade union, staff and workers, we should encourage constant exploration; but we need to make it a principle that the effective implementation of the factory director responsibility system is insured. We should fully understand that the calm, unruffled mood of the factory director and the affirmation of the important role of entrepreneurs in enterprise development are the necessary conditions for

insuring that their main energy is concentrated on developing the enterprise and improving results.

With regard to staff and workers who, because of a production shutdown, have returned home and are waiting for a work post, the enterprise, department in charge, and local government should jointly make efforts to insure their basic living conditions. At the same time we should vigorously encourage these staff and workers to find a way out of their predicament, including engaging in the individual economy and seeking employment in private enterprises. Under the circumstances in which the state enterprises have fairly big difficulties in accommodating the labor force, individuals and private enterprises not only should not be reduced in number but should be further developed, and they will be able to play the role of mitigating the employment pressure on all of society. For this reason we must stabilize the state's policy for individual households and private enterprises. We should make timely corrections regarding the tendency of some localities, during the process of implementing the policy, to tend to damage the legal rights and interests of the individual households and private enterprises.

Successes, Failures in Investment Control

900H0453A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 14 Feb 90 p 4

[Article by Zhai Yinglong (5049 2019 7893), head of the State Statistics Bureau's Investment Department: "Successes and Failures in Investment Regulation and Control in Recent Years—Also Commenting on the Results and Problems of Investment Regulation and Control in 1989"]

[Text] After an expansion in 1985, China's investment scope increased at a more steady pace during the first three years of the Seventh 5-year Plan. Subsequently, however, prompted by the serious problem with excess demand which had built up over several years, the central government began to implement a "double tight" policy in the latter part of 1988. The increase in investments slowed dramatically during 1989, but the composition did not improve, nor did the investment efficiency. Comprehensive and fair assessment of the success and failure of investment regulation and control in recent years has become an issue of great concern to many today.

Expansion and Contraction: Is the Severe Fluctuation Normal?

"Expand, contract, re-expand, and re-contract"—this strange investment circle has always disturbed the economy's benign cycle. Things have improved since 1986. During the investment expansion in 1985, society's fixed asset investments reached 254.3 billion yuan, a surge of 38.8 percent compared to the previous year, which marked the largest expansion at the end of the Sixth 5-year Plan. After some sorting out and reductions, the rate of increase in investment slowed to 18.7 percent in 1986, and 20.6 percent and 23.5 percent in 1987 and 1988, respectively. If we deduct the price factor, the actual investment increase

was less than 10 percent in each of those years. Fixed asset investment in 1989 came to 400 billion yuan, 11 percent less than in 1988, and if we deduct the price factor, actual investment has fallen by more than 20 percent. If we look at the nominal increase in investment, the range of fluctuation was as much as 34.5 percentage points within one year, and the rate of increase was accelerating. In 1989, investments by the ownership by the whole people system fell by two percent in the first quarter, 6.8 percent in the second quarter, 9.3 percent in the third quarter, and 11 percent in the fourth quarter. For the year, the average rate of decrease was 9.2 percent, a 29.4 percent drop compared to the previous year.

The main causes of the severe fluctuation in the increase in investment are: First, the rectification and improvement policy is being implemented in earnest and inspection and supervision have been efficient; second, the rigid quotas, rigid methods, and rigid demands have proven effective; and third, the drastic measures we adopted have eliminated the source of expansion. For these reasons, the slowing investment increase in 1989 was marked by an increase in suspended and delayed projects, a decrease in new projects, and a reduction in extra-budgetary funds; both central and local investments were under control. But this kind of severe fluctuation is abnormal, because (a) there have been no serious ups and downs in the economy as a whole, and there is no reason for investments to be so volatile. In the late 1950's and early 1960's, because of natural disasters and other reasons, the economy went through several ups and downs, and it was necessary then to drastically reduce investments. But in the last 10 years, the economy has been growing steadily. The GNP increased at an average rate of 9.6 percent during the 1979-1988 period while the national income grew at an average rate of 9.2 percent. The 1989 GNP and national income also rose four percent and 3.5 percent, respectively. Investment is the primary driving force behind the nation's economic growth; its ups and downs often lead to ups and downs in the national economy. (b) The substantive goal of investment is to create supply. The demand it triggers is only part of the natural process. The temporary fluctuations not only adversely affect supply-demand equilibrium but can heighten the conflict if allowed to persist. (c) The purpose of reducing demand is to control inflation, but supply-demand disequilibrium is a problem that has built up over a period of time, and the thinkings and measures that seek immediate solution to the problem can only upset the inherent economic laws. Of course, this does not mean that we need not narrow the investment scope, but it does mean that we should minimize the disturbance and pay the smallest price possible in the process.

Total Investment and the Investment Composition: How Do We Coordinate and Stabilize, Giving Consideration To Both?

In recent years, especially in 1989, there has been a serious conflict between total investment and the investment composition. From the point of total investment, in 1989, society's fixed asset investment fell by 11

percent. This includes a 9.2 percent reduction in investment by the ownership by the whole people system, 28.1 percent reduction by the collective ownership system, and 4.3 percent reduction in individual investments. In terms of the investment composition, for the ownership by the whole people system, investment in energy-related industries rose from 22.2 percent to 24.9 percent, investment in raw material industries fell from 20.4 percent to 18.4 percent, investment in transportation and post and telecommunications rose from 12.2 percent to 13.5 percent, and agricultural investment fell from 3.8 percent to 3.5 percent; production-oriented investments rose from 74 percent to 75.4 percent while nonproduction investments fell from 26 percent to 24.6 percent; investment in capital constructions fell by 2.3 percent compared to the previous year while renovation and transformation fell by 20.5 percent, 17.2 percentage points more than capital constructions. This situation demonstrates that although total investment has been reduced, the investment composition has changed very little, and in some cases, the conflict has heightened. The reason for this is that we can only make limited adjustments in the investment composition by reducing the total investment. The more effective ways to adjust the investment composition are: adjust the total stock; that is, adjust the investment composition through the capital market and enterprise mergers. Two, adjust the increments, that is, rely on reasonable increase in investment to adjust the composition. This measure requires that the increase in investment be reasonable. The latter measure is more compatible with the conditions in China today. In the next year or two, if we continue to reduce total investment, the structural problem will only worsen.

Scale and Efficiency: How Do We Guarantee an Optimal Amount of Both?

In 1989, although the investment scope was reduced, investment efficiency at the macroeconomic level was poor. Specifically, (1) the rate of fixed assets transferred and in use was mediocre. During that year, the fixed asset transfer and in-use rate in the ownership by the whole people system was 71.9 percent, up from 70.8 percent in the previous year; the magnitude of increase was insignificant. Specifically, the fixed asset transfer and in-use rate for capital constructions fell from 71.1 percent to 70.5 percent while the rate for renovation and transformation rose from 70.5 percent to 76.3 percent. (2) The rate of construction projects turned over for production fell from 52.9 percent to 49.2 percent—this includes a drop from 53.3 percent to 48 percent in the case of capital constructions and a drop from 52.6 percent to 50.6 percent in the case of renovation and transformation projects. (3) The completion rate in terms of area of buildings and structures fell from 48.8 percent to 46.7 percent—capital construction completion rate fell from 46.8 percent to 45.3 percent and the completion of renovation and transformation of existing buildings and structures also fell from 49.6 percent to 49.3 percent. (4) Newly added production capacity is deficient. Newly added production capacity from capital

constructions fell short of the state plan in many areas. The basic cause of this situation is the failure to guarantee certain projects that should be preserved despite the investment reduction, causing the limited funds to overspread. In order to solve this problem, we must first guarantee reasonable increase in total investment; and second, we must concentrate funds in certain investment projects. Otherwise, it will be very difficult to resolve the conflict between investment scale and efficiency.

Conflict and Solution: Where Can We Find the Permanent Cure?

The above analysis show that after several years of relentless efforts, of the "three errors" (uncontrolled scale, maladjusted composition, and improper decisions) in China's investment domain, the problem of uncontrolled scale is solved for the time being. But we must still make an utmost effort to find a permanent cure for all the above problems.

First, in restructuring the investment system, we must attack the fortified positions: (1) We should once and for all build a dual, investment decision-making risk and investment implementation risk mechanism. Those who made erroneous decisions on major investments and cause serious damage to the state and those who are wasteful in their investments should be punished by law. We must not be softhearted, or we will never eliminate the root cause of bloated investments. (2) We should continue to build and perfect some indirect investment regulation and control mechanisms, primarily in the form of market mechanisms, and change our way of using 1950's methods to manage investments in the 1980's and 1990's. We need to come up with regulatory and control measures to deal specifically with the new characteristics of the bloating investments during the transition from the old to the new system. (3) We should change the "standard" method in investment planning. We need to draw up annual investment plans but also an overall investment plan. At the same time, we should enhance the auditing, inspections, and news departments' functions to overlook investment planning. We may be "harping on the same string" with the above measures, but we are facing problems which have never been solved.

Second, while we continue to uphold the general policy of rectification and improvement, we should be careful to avoid "over-contraction." Both theory and practice prove that the essence of investment is to create supply and increasing demand is a part of the natural process. As we expand investment in moderation, the supply created by the investment will necessarily lead to an increase in demand. There is an intrinsic quantitative limit to the reduction in investment scope; the reduction must be in moderation despite the bloated investments. Excess demand has been building up over a period of time, and it will adversely affect economic stability to eliminate that excess demand too quickly; it can even widen the supply-demand gap. In addition, China is a large country with a huge population. Each year, many

people enter the labor force. If we cannot guarantee reasonable increase in investments, there will be limited employment opportunities, and the resulting social problems will be insurmountable.

Third, suit the medicine to the illness and reduce consumption. Everybody knows that excess demand causes inflation. Total demand is made up of investment demand and consumption demand, and we must deal with each separately. Comparing 1988 to 1982, society's total supply has increased 1.84 fold while total demand has doubled. Specifically, the supply of investment goods has increased 2.25 fold and the demand for investment goods has increased 2.4 fold; the supply of consumption goods has increased 1.48 fold while demand has increased 1.68 fold. If we look at the average annual rate of increase during this period, the increase in total demand exceeds total supply by 1.1 percentage points. Specifically, total investment demand exceeds the supply of investment goods by 0.9 percentage point and consumption demand exceeds the supply of consumer goods by 1.6 percentage points. From the point of the supply-demand differential of investment goods, except for the years 1984, 1986, and 1987 when the gaps were negative, the remaining four years showed positive differentials. The supply-demand differential of consumer goods, however, was negative every year and reached 15.4 percent in 1988. This situation shows that consumption expansion is the prime factor behind the excess demand. Today, the bank have raised their interest rates; we can increase investments moderately and turn consumption funds into production funds, and we can increase supply and turn around the situation where banks' saving deposits are increasing but loan funds are decreasing. We can end the market slump.

To sum up the above discussions, although China's investment adjustments in recent years have been fairly successful, we still tend to reduce the scope rather than adjust the investment composition, use old methods rather than new measures, pursue near-term objectives rather than long-term goals, try to treat the symptom rather than cure the disease, and we tend to be too eager for quick success in reducing investments. We must pay more attention to these tendencies and take precautionary measures against the unexpected.

Price Control of Capital Goods Analyzed

90OH0434B Beijing JINGJI CANKAO
[ECONOMICINFORMATION]
in Chinese 14 Feb 90 p 4

[Article by Zhang Xinze (1728 2450 3419) et al: "A Brief Analysis of the Price Control of Capital Goods"]

[Text] In 1990, controlling the price of capital goods as a part of the rectification and improvement process will be very difficult.

July-December 1989 saw the smallest increase in the price of capital goods since 1988; prices only rose four percent over the six month period, which translates to an annual rate of around nine percent. This rate is still a

little high, and besides, the decline was accompanied by a market slump and very sluggish fund turnover. Today, the problem of excess demand over supply is still unsolved, and this has a profound effect on prices. There has been little improvement in the economic mechanisms. Looking at the factors that have a near-term, direct effect on the price of capital goods, it will be an uphill battle to keep the price increase at the above rate.

Looking at the economic growth and the increase in the money supply: At present, both the market for capital goods and market for consumption goods are in a slump, industries are not operating at full capacity, and production is slow. This means employment and income problems for the workers. One of the main reasons for this is, affected by the reduction in fixed asset investments, there was an increase in product supply and stockpile in the mechanical and electronic industries, which account for nearly 20 percent of all industrial productions. As the rate of increase in mechanical and electronic productions fell, the rate of increase in sales fell even faster. In November 1989, the mechanical and electronic system saw a 70 percent increase in stockpile compared to the same period a year earlier. In addition, other goods and commodities in society were not selling, and therefore fund turnover was very sluggish. The market slump put pressure on the state to loosen the control over fixed asset investments. This move took the market for capital goods out of the slump and also helped the economy to recover. Moreover, as product prices stabilized, the subsidy rate on the inflation-proof savings deposits began to fall. As a result, the people were less inclined to save. With the input of purchase funds, the people's purchasing power also increased. These helped the consumption market to recover. When the problems with the capital goods market and consumption market were solved, fund turnover began to speed up and the demand for raw materials increased. In 1989, the increase in loan funds did not slow. Since October, the supply of all forms of money has been on the increase. As economic growth picks up speed and the money supply increases, it also affects future prices.

From the point of economic efficiency: Today, economic efficiency is on the decline; enterprise production cost is on the rise; the rate of profit is falling, and losses are mounting. All these will add momentum to the price increase. If the fund supply should ease, we will not see enterprise hold "all-out clearance sales"; instead, whenever possible, they will raise prices and go after more profit.

From the point of the supply-mix: Although the market is in a slump, the demand for some products still exceeds supply. The supply of most nonferrous metals is tight. The price of copper has increased 24 percent compared to early November. There is a shortage of cotton yarn, and prices have risen 19.2 percent.

Because of the substantial increase in prices in general, the parity prices of primary products which had been adjusted upward have fallen again and the old price

parities restored. To solve this problem, the state is forced to raise the price of coal, electricity, petroleum, grain, cotton, oil and other primary goods. This move will affect the overall price level.

In view of the above situations, we must watch the development of the economic situation, be cautious, and prevent inflation from creeping up again.

Reducing fixed asset investments and adjusting the economic structure are crucial to curbing inflation. China's investment scope is excessive and the investment structure is imbalanced. These problems have accumulated over several years and will take years to smooth out. The investment scope must be reduced, but we must not act with undue haste; we want to avoid unnecessary economic disturbance. If we look at the present economic conditions, any easing of investments must be predicated upon the long-term control of the investment scope, and we must pay attention to the incremental adjustments and comply with the biased industrial policy whenever we invest.

Controlling effective demand is a good way to control price increases. In 1990, the state should continue to control loan funds, the money supply, and the excess increase in consumption funds. Today, we already have a substantial amount of loan funds in circulation. At the end of 1989, the supply of money in all forms was increasing, which is something we should be aware of. Today, the market is in a slump and enterprise funds are in short supply. These phenomena were present after the tightening on two previous occasions. They should not shake our confidence. Instead, we should provide better guidance during this round of structural readjustment.

The present market slump and enterprise fund turnover difficulty have limited the production of not only goods in ample supply but also goods that are in short supply. Under the circumstances, the commercial and materials departments should purchase more commodities and goods in short supply, so that when the economic disturbance settles and prices begin to climb, they can use those goods to regulate demand and keep prices down.

Governments at all levels should further strengthen their price management, coordinate the interest relations among all parties, adjust any abnormal dual-track pricing of capital goods, promptly improve and perfect the existing price management measures, improve the price regulations, augment inspections and supervision, and make a conscientious effort to keep the price increase within the target range.

Socialist Planned Commodity Economy Discussed

90OH0403A Chongqing GAIGE [REFORM] in Chinese No 1, 20 Jan 90 pp 65- 69

[Article by Dai Yuanchen (2071 0945 2525): "Some Theoretical Issues Relating to the Socialist Planned Commodity Economy"]

[Text] Whether or not the socialist economy is a commodity economy has historically been a controversial

point in socialist economic theory. The controversy, now heated, now dormant, has lasted more than seven decades. In China, too, the controversy is now more than three decades old, having begun in the mid-1950's. Although the CPC formally affirmed the socialist economy as a planned commodity economy in a party resolution adopted at the Third Plenum of the 12th CPC Central Committee, there are differences of opinion within the Chinese theoretical community regarding its emphasis. How to interpret it remains a matter of dispute, although it should be said that it is normal for us to have different interpretations. Here I propose to discuss my views on some theoretical issues involved:

1. Is the commodity economy a remedial transition or an objective necessity?

Guided by their own set of values, some comrades in the socialist economic theoretical community have always abhorred the commodity economy because it has helped cover up capitalist exploitation of the proletariat in the guise of fair market exchange and because it leads to commodity fetishism. It is only natural, therefore, that some theoreticians consider the abolition of the commodity economy the goal to be pursued after the victory of the proletarian revolution.

However, the abolition of the commodity economy has run into trouble and been foiled in the Soviet Union, China, and Cambodia. It was Lenin who first learned the lesson about the commodity economy. He said, "In the absence of full evidence, we first proposed to adjust state production and production distribution in accordance with commodity principles in a nation of small farmers by direct decree. Real life, however, proved us wrong."¹ To correct his mistake, Lenin introduced the New Economic Policy [NEP], revived commodity production, and stopped regarding commodity production and commodity circulation as antithetical to each other. He argued that it was not wrong to make a concession to the peasant as a trader, to the principle of private trade.² In the cooperative movement, "we have now found that degree of combination of private interest, of private commercial interest, with state supervision and control of this interest, that degree of its subordination to the common interests which was formerly the stumbling block for very many socialists." He also said, "We cannot but admit that our entire perception of socialism has changed fundamentally."²

It should be said that neither socialist production nor commodity circulation can be abolished in any socialist country today and that the commodity economy exists in all socialist countries. Nevertheless, there is still no consensus on whether the commodity economy is a transitional expediency or an objectively necessary socialist mode of production. The "transition" theory, which appeared in the Soviet theoretical community in the 1920's, rationalized the commodity monetary phenomena that emerged under the NEP. In the 1950's, it was fashionable in the Soviet theoretical community to argue that commodity production and commodity circulation would not be abolished owing to the coexistence of

two different forms of public ownership. In both cases, the commodity economy was portrayed as a transitional expediency designed to raise social productive forces. Many economists in China see the commodity economy in the same way. As soon as the climate changes, theories in favor of abolishing or restricting the commodity economy crop up.

Socialist economists have traditionally considered the production of use value and direct distribution the hallmark of the socialist and communist mode of production. In their value judgment, the production of value, that is, commodity production and commodity circulation, are a foreign matter, the source of all evil. As a result, barring a change in concept and values, we will always end up equating the commodity economy with capitalism to varying extents, believing that developing the commodity economy is practicing capitalism, not socialism. Thus, only by changing our concepts and accepting the development of the commodity economy as an objectively necessary socialist mode of production can we rid ourselves of the notion that it is a transitional expediency, a "pig to be fattened for slaughtering." In this area many economists have done preliminary research and put forward different arguments. Some contend that socialist production is joint labor by a union of free individuals and that between different unions are division of labor and exchange. Some argue that the commodity economy is objectively necessary for realizing distribution according to work. Yet others claim that interest relationships require us to "keep the books in order" even under public ownership. Thus we realize that the institutional reform now under way is designed to bring about a socialist commodity economy and that the socialist economy we are trying to develop is socialism of the commodity variety. Apparently this kind of research is useful.

2. Exchange Between State-Owned Enterprises Remains Commodity Exchange, not Product Exchange

Only through commodity exchange can two different owners carry out an economic relationship. This is common economic knowledge. Thus whether we think the commodity economy is a remedial transition or an objective necessity depends on whether we believe the existence of a multitude of ownership systems to be a temporary phenomenon. In the past, we were obsessed with the pursuit of purity; we wanted to make people's communes as large in size and as collective in nature as possible. Only gradually did we realize that with China's serious cultural and economic backwardness, its socialism still did not measure up. So through the practice of reform we came up with the theory of the initial stage of socialism. On the one hand, this theory demonstrates that China has become a socialist society and is no longer capitalist. Even as it carries out economic structural reform, China must adhere to socialism. Public ownership is the mainstream in the

Chinese economy, distribution according to work the primary form of socialist distribution. Under no circumstances are we to depart from socialism to join the capitalist road. On the other hand, it shows that Chinese socialism is undeveloped and has not yet made the grade and that we still need capitalist elements to develop the country's socialist economy. The emergence of peasant households as operating units in rural areas, the development of the individual economy and private economy in the cities, and the encouragement of foreign businessmen to invest in China are all necessary. The presence of multiple ownership systems is not a temporary measure, but an objective necessity in the initial stage that will last centuries. In this vein, it is easy to understand the development of a commodity economy as an objective necessity in the initial stage of socialism.

Be that as it may, there is no consensus on whether it is commodities that state-owned enterprises exchange with one another. In the past, Soviet economists argued that only the presence of two forms of socialist public ownership gave rise to commodity exchange, so the exchange of capital goods between state-owned enterprises was essentially not an exchange of commodities. For calculation and cost accounting purposes, however, such capital goods did take the form of commodity and had prices. Soviet economists argued that the exchange between state-owned enterprises was not commodity exchange because they defined commodity thus: "It can be sold to any buyer. After the commodity is sold, its owner loses his title to the commodity. As for the buyer, he becomes the owner of the commodity and can resell or mortgage it or even let it go bad." But in thus defining commodity, they have deviated from Marx's classic definition. In Marxist economics, commodities must have use value and satisfy certain human needs. Also, so-called commodity must be used for exchange, not to satisfy the producer's own consumer needs. Only in exchange is the use value of a commodity realized. The measure of exchange is embodied in the social average necessary labor, that is, value. Thus what changes in commodity exchange is not ownership per se, but the expression of ownership. A producer of sackcloth exchanges the fabric for a pair of shoes. In so doing, he does not lose his so-called ownership; it is just that the expression of ownership has changed from sackcloth to shoes. If he sells his cloth for money, then the expression of his ownership changes from cloth to a special commodity, money. As to whether we can resell or mortgage it or even let it rot, that is a question of ownership; if he is the owner of the object in question, he can. Otherwise, he cannot. But his power to do so does not indicate whether the object is a commodity or otherwise. This is precisely why, back in the 1950's, this writer already made the point that capital goods exchanged between socialist-owned enterprises are commodities, the reason being that social division of labor still exists within the state-owned sector of the economy, with different state-owned enterprises producing different products. Moreover, state-owned enterprises must treat one another as independent economic units as they interact with one

another economically through buying and selling. "Even blood brothers must keep their books in order." It was early 1956. A debate was raging in the industrial and commercial circles in Shanghai over the distribution of profits between industry and commerce. We investigated ways in which state-owned commercial departments could return profits to industry, which prompted us to think about socialist economic structural reform. We believed nothing stifled thinking so much as the idea that capital goods exchanged between state-owned enterprises only possessed a "commodity shell." If only we could rise above this notion, the socialist economy could be affirmed as a commodity economy and we would find it easier to explore a string of theoretical issues in depth. Regrettably no such in-depth research subsequently took place for a variety of reasons. As far as this writer is concerned, much precious time that could have been used for intensive research was lost.

Still, after four decades of practical experience, we have become even more convinced of the omnipresence and necessity of commodity monetary relations in the socialist economy. During these years, every time it became popular to repudiate the theory of the commodity economy, such repudiation was often accompanied by the rise of egalitarianism and the indiscriminate transfer of resources. Accounting and efficiency were slighted and economic development suffered setbacks. Full-fledged direct production distribution—the "product economy"—was an ideological trend, but in reality it was only realized in part. Numerous articles on economic structural reform refer to the way the economy operated under the old order as "product economy." While this term is used as a matter of habit, its usage is not completely accurate. The fact is that even under the so-called "product economy," commodity monetary relations were commonplace. Planned allocation, transfer, and distribution does not mean the allocation of products free of charge but the allocation of the right to purchase. The buyer and seller must still go through the usual procedure of settling accounts, a totally different process from the movement of raw materials and semifinished goods from one workshop to the next within an enterprise. This raises the question: how do we draw the boundary between the movement of products within an enterprise and the exchange of commodities between enterprises? In his 1937 work, "The Essence of the Corporation," R.H. Coase, an American economist, suggested that such boundaries be drawn by comparing operating expenses within an enterprise and the costs of trading between enterprises. In other words, you have to pay for using the market. This is because obtaining accurate market information entails costs; so does conduct that maintains market order, such as negotiating and resolving business disputes and ensuring contract compliance. As well, internal market management, which does not utilize the market, entails costs. What I learned from this is that the product economy within enterprises in the socialist economy and the commodity economy outside enterprises will continue to coexist for a long time to come. The *raison d'être* of the relatively independent socialist enterprise is that, on the one hand, the costs of "atomic" market

exchange are too high. On the other hand, we cannot expand an enterprise indefinitely until the entire state-owned sector of the economy becomes a large factory. Practice proves that there is a limit to the scale of an enterprise. If this scale is exceeded, the enterprise will become quite unmanageable, over-staffing will occur, and management expenses incurred by the need to supervise operations will go up. There will be other costs as well, such as operational rigidity and low efficiency. So-called coexistence does not mean that the boundaries between the two will not change. In fact, constantly comparing enterprise management expenses with market transaction expenses, adjusting their lines of demarcation, and exploring the possibility for self-improvement are a topic that will come up again and again in economic structural reform. Since it is not possible to turn the entire state-owned sector of the economy into a huge factory, the existence of the commodity economy becomes an objective necessity.

3. Planning and the Market: Their Inherent Unity and Effective Combination in the Organization of Economic Activities

There are all sorts of arguments about the socialist commodity economy, but they all boil down to the question of planning and the market. The market is not incompatible with planning; haphazardness is. The report of the 13th National Party Congress pointed out that "the socialist planned commodity economy should be an economy where planning and the market are inherently unified." For years, however, people have always thought of planning and the market as antithetical to each other, the result of two errors, namely the omnipotent planning theory and the omnipotent market theory. Traditional economic theory tends to teach that planning is omnipotent, that all economic activities should be regulated by planning. Planning is all-inclusive and should be carried out via administrative methods, from the top down. People at the lower levels should execute planned tasks handed down from above firmly and fully, without considering whether they are consistent with interests and preferences created by economic relationships. Inevitably they must reject the market and the law of value. As for the omnipotent market theory, that is usually held by the "naive reform" faction who believes that as soon as price control is lifted, a market and market competition will come into existence just like that and that we can achieve a balance between supply and demand and raise efficiency through the pressure of competition. This kind of market idealism is based on the balance analysis of full competition. In real life, though, there are large-, medium-, and small-sized enterprises, various degrees of concentration and monopoly, buyer's markets, and seller's markets. The abstract idealized market does not exist in real life. What we have is a tangible market. What role the market will play depends entirely on this specific market. Moreover, the market always regulates retroactively. It is overly naive to imagine that the market can regulate economic activities perfectly. Even Western economists of the

neo-liberal school have expressed skepticism about the blind faith of Chinese reformers in the market. Thus, there are two reasons why planning and the market have been perceived as mutually exclusive. It would be partial to blame just one party. We should see that planning cannot predict changes in consumer needs and preferences perfectly. For its part, the market cannot reflect development objectives two, five or ten years down the road. Both have their respective weaknesses. Moreover, economic planning and market regulation are not incompatible. The reason is that the socialist economy is a commodity economy as well as a planned economy. Economic planning too must comply with the objective requirements of the law of value. If you fail to do so, you will be penalized. The logic is very simple. Moreover, before-the-event regulation such as planned regulation is necessary, because under social mass production in a highly developed commodity economy, the economy comprises numerous sectors connected to one another in myriad intricate ways. If social reproduction is to proceed smoothly, a roughly reasonable balance must be maintained at all times between them and resources must be reasonably allocated throughout society. In addition, the total volume of demand must be regulated in society so that it is basically in line with total social supply, thus largely balancing total supply with total demand. Such regulation is not directly aimed at enterprises but involves the state regulating at the macroeconomic level those areas of economic life untouched by market forces. The idea is to create a favorable external environment for the normal functioning of the market. From this perspective, planning and the market are not antithetical to each other. Public ownership determines that the state proceed from the society-wide perspective and apply the law of value conscientiously. In a large developing socialist nation like China, in particular, market mechanisms cannot ensure a total balance in economic operations in the course of modernization. The market cannot weigh social costs and social benefits by taking everything into consideration. Nor can it achieve special social development objectives. In addition, all sorts of problems may crop up as the market matures. All this makes macroeconomic regulation and control by the state that much more essential. Such regulation and control takes the form of planned state regulation of the market in order to promote its healthy development and orderly functioning, thereby enabling it to better guide the economic activities of enterprises.

How, then, do the conflicts and incompatibilities between planning and the market, so much talked about in the real world, come about? What form do these conflicts assume? They are the product of the scarcities in China's socialist economy. Because of shortages, there is no alternative but to resort to the planned transfer and allocation of scarce resources and commodities and use two forms of regulation—quantitative signals and price signals—simultaneously in economic operations, the hallmark of the so-called "piecemeal" style of combination. Since the magnitude of shortages as well as the scope of regulation by quantitative signals are constantly

changing, this style of combination also changes constantly. Regulation by quantitative signals often renders transfer and allocation prices lower than prices formed by the ordinary process of balancing supply with demand. As a result, planning and supplies departments have no choice but to keep market information relating to the production of scarce commodities as well as their circulation channels and storage and transportation methods tightly under their control, thereby severing the direct linkages between enterprises. This is precisely why this condition is referred to as the "product economy" or "commodity shell." Actually it is nothing more than a special form of commodity circulation resulting from shortages and price distortions.

We should see that the piecemeal form of combination linking quantitative signals with price signals is unavoidable. Price signals regulate retroactively. They often come into play and cause policy adjustments after the supply-demand relationship has changed. But these adjustments often tend to overcorrect, resulting in repeated and persistent "spider-web-like" departures away from the balance point and exact a heavy price. In contrast, economic development planning and quantitative planning can estimate supply-demand changes in advance, work out procedures to make suppliers and consumers act accordingly, and increase the foreseeability of events, thus eliminating the need to correct the imbalance in supply-demand through fluctuations. Of course, regulation through quantitative controls has its own obvious weaknesses. It is hard to tell the extent of a scarcity through the lines at a store and the voice of consumers. The values of various quantitative signals cannot be added up. Consequently, such signals are neither standardized nor accurate. Regulation through quantitative signals often distorts prices by adjusting them downward. It reduces supply by producers and increases demand by consumers, thus artificially inflating shortages. The economic stimulus of regulation by quantitative signals is neither obvious nor direct. In the case of many commodities, the more you control them, the scarcer they become, and the scarcer they become, the more you manage them. We can therefore see that the two methods of economic regulation each have their own advantages and limitations. It is not scientific to say that one method is perfect and the other worthless. To make that kind of value judgment only reflects a person's preferences. In real life, therefore, we must combine the two, supplementing one with the other. It is a subtle art to combine them just right.

Generally speaking, it would be more appropriate to adopt regulation by quantitative signals with regard to scarce irreplaceable resources and those sectors of the economy that enjoy a monopoly and significantly impact the nation's economy and people's livelihood, such as railways, civil aviation, posts and telecommunications, and electricity. For other sectors where full competition or partial competition takes place, we may adopt regulation via price signals by utilizing the market. In defining the respective scopes of these two forms of

regulations, we must compare not only their effects, but also the costs they each incur, in other words, the management expenses vis-a-vis the costs of working out deals on the market. It should be pointed out here that regulation by quantitative signals does not necessarily distort and lower prices. Even underpricing varies from product to product. When prices become more rationalized, quantitative regulation would also have fewer problems. To put it differently, regulation by quantitative signals may be a special form of operation in a commodity economy, but this regulation method does not seek to distribute products directly but still has to work through buying and selling and must still meet the objective requirements of the law of value of the commodity economy. For years we have suffered terribly in this area. The blunders we have made over the years prove that straightening out prices is a must. However, prices must be straightened out in a favorable environment. And such an environment can be created only through planned macroeconomic management. Only the socialist planned economy makes it possible to create such an environment.

Footnotes

1. "Complete Works of Lenin," Vol 33, p 39
2. "Selected Works of Lenin," Vol 4, "On Cooperation."

PROVINCIAL

Internal Changes Needed in Shanghai Enterprises

900H0374A Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA'S ECONOMIC STRUCTURE
REFORM] in Chinese No 1, 23 Jan 90 pp 14-15

[Article by Geng Hongfu (5105 7703 4395) and Yu Wei (0060 3555): "Change the Internal Mechanism and Enliven the External Environment—a Study of the In-Depth Reform of the Large and Medium-Sized State Industrial Enterprises in Shanghai"]

[Text] There are more than 670 large- and medium-sized state industrial enterprises in Shanghai. They account for about 70 percent of all the taxes and profits turned over to the state by Shanghai's enterprises and occupy a very important position in the city's economic development. Changing the management mechanism and increasing the management vigor of these enterprises will have a positive bearing on Shanghai's continued economic growth. After a series of reforms in the past few years, the management mechanisms of these enterprises have taken on some changes, and to varying degrees their awareness of business risks and ability to operate independently, especially the ability to compete in the market and to meet emergencies, have been strengthened. But, compared with the collective enterprises and small state enterprises, they are still lagging far behind. In the first half of 1989, the city as a whole overfulfilled one half of the year's industrial output value and profit targets, but the output value of the locally

administered state enterprises dropped by 0.3 percent from the same period in 1988, and the taxes and profits they turned over to the state also decreased, mainly because the large- and medium-sized state industrial enterprises lacked vigor in their management.

There are both objective and subjective causes for the lack of management vigor.

The first of the objective causes is the tight external economic environment, which is putting a rather strong pressure on the enterprises. In the past few years, the state has appropriately reduced mandatory allocations of raw and semifinished materials and energy required by the enterprises. The enterprises have no choice but to turn to the market for needed resources, which has aggravated the supply and demand contradiction and added to the pressure on the enterprises in general.

The second is overstaffing, which is a major problem faced by large and medium-sized state industrial enterprises. These enterprises cannot adjust their own personnel requirements fully as necessary to meet market and production development, but must increase or reduce their personnel according to unified allocation of gross wages and staffing pattern determined by the state. In the past few years, especially since gross wages were linked with economic performance, the burden of redundant personnel has become even heavier on these enterprises. Many of the enterprises have implemented the optimum organization of labor and reduced some personnel, but these personnel must be placed by the enterprises themselves, which only increased the burden and hardly raised economic efficiency.

The third is that the enterprises also have to perform many social services, which not only divert their attention but also cost them manpower, material, and financial resources, further weakening their management vigor.

Among the subjective causes, the government departments concerned have in the past few years created some conditions, by changing of functions and delegation of authority, for the enterprises to establish a self-retraining and self-developing mechanism, but due to a lack of effective guidance, this mechanism has never been really established. Since the implementation of the contract and lease systems, some enterprises have substituted contracts for management. A few enterprises are noted for their clearly deteriorating basic management standard, lax internal labor discipline, high energy and material consumption, overstocked goods, and tied up funds, and some are even sinking in the red.

To sum up, in order to increase the vigor of the large- and medium-sized state industrial enterprises, it is necessary not only to improve their external economic environment, but also to help them reform their internal management mechanism. At present, it is necessary to carry out in-depth reforms in the following areas.

It is necessary to strengthen the internal management of the large- and medium-sized state industrial enterprises,

raise their managerial and operational standards, and improve the political and professional qualities of their employees. In the course of perfecting the enterprise contract system, it is necessary to include the management goals in clear-cut terms in the contract; continue to improve the system under which the factory director assumes full responsibility for the factory's operations and actively strengthens ideological and political work, building a contingent of political workers competent in political work as well as enterprise management to help the factory director in his work; and establish and perfect the various essential management systems and strictly enforce the personal responsibility system and labor discipline. At the same time, it is also necessary to continue the in-depth reform of the internal management mechanism of the enterprises, further introduce a competitive mechanism into the enterprises, and expand the work to select the best qualified managers; implement the secured risk-taking contract system and establish a distribution mechanism combining responsibility, authority, and benefit; and actively explore for a scientific way of management suited to modern industrial production.

A rational industrial policy should be formulated as soon as possible to provide guidance for the readjustment of the industrial structure and product mix to expand the benefit of large-scale production. Efforts should be made through the structural readjustment to develop an export-orientated economy, giving full play to the strength of industries and enterprise groups represented by the large- and medium-sized key state industrial enterprises and manufacturers of brand-name and foreign-exchange earning products. At the same time, small enterprises, which consume a great deal of energy, produce obsolete products, make little profit, or run at a loss, should close down, suspend production, amalgamate with others, or switch to other lines of production to guarantee the effective supply of energy, funds, and raw and semifinished materials to meet the requirements of the large- and medium-sized state enterprises.

Policies favoring the large- and medium-sized state industrial enterprises should be adopted. The supply of raw and semifinished materials and energy included in state plans for these enterprises should be increased, and preferential measures on bank credit and taxes should also be adopted in their favor, to help them maintain smooth production. At the same time, it is necessary to really let them exercise the power that has been clearly delegated to them and implement the series of policies encouraging enterprises to "import raw materials and export finished products," so that they can take the lead in competing in the international market and become a major force in developing an export-oriented economy.

It is necessary to speed up the development of markets of various kinds of essential goods and establish and perfect regulations governing these markets. To create an easy external environment for the large- and medium-sized state enterprises, it is necessary to restore order in the markets, reduce the intermediate links, mainly the wholesalers, and ban illegal businesses. It is necessary to

strictly control the prices of capital goods and, on this basis, establish and perfect market regulations and maintain good market order.

It is necessary to improve the various ways and means for macroeconomic regulation and control and strengthen macroeconomic management. Efforts should be made to establish and perfect the finance and tax, credit, industrial and commercial, audit, and other macroeconomic management systems. Effective measures should be adopted to restrain enterprises from engaging in short-term activities.

Unfair distribution of society's wealth is a problem that must be solved. First of all, it is necessary to strengthen the tax system to effectively control excessively high incomes. At the same time, the reform to link total wages to economic performance should be continued, so that wage increases for workers and staff members will be really based on improved labor productivity and economic results, to fully embody the principle of distribution according to work and stimulate the enthusiasm of workers and staff members for production.

Efforts should be made to establish and perfect step by step a labor regulating mechanism and a labor insurance system to help achieve optimum organization of labor for the large- and medium-sized state enterprises (mainly the industrial enterprises) and create conditions for the surplus personnel to ultimately find other work in society. At present, while encouraging enterprises to implement such practices as performance evaluation, selection of the best qualified personnel, more flexible assignments of regular workers, and finding their own solutions for the surplus personnel, it is necessary to establish as soon as possible an unemployment insurance system for workers and staff members, improve and expand the labor market, continue to implement the labor contract system, and encourage enterprises and workers and staff members to achieve rational movement of the labor force by each making their own choices through the labor market.

The responsibility and power relations between enterprises and local authorities should be straightened out to gradually change the situation of enterprises providing social services and society depending on enterprises. The social work currently performed by enterprises should be gradually transferred to the local authorities, so that the enterprises can concentrate their energies on production. At the same time, it is necessary to establish relevant policies, laws, and regulations, check up on the various social organizations and establishments according to law, and take effective actions to curb the wanton charge of fees and compulsory apportionment of financial burdens to rid the large- and medium-sized state enterprises of these additional burdens.

Whether the large- and medium-sized state industrial enterprises can bring their own vigor into full play will depend, in addition to the objective economic conditions, mainly on their own management mechanism and quality. Therefore, to invigorate the enterprises, it is necessary first of all to have them do a good job in changing their internal mechanism.

Shandong Renovates Existing Enterprises

OW0403100690 Beijing XINHUA in English
0849 GMT 3 Mar 90

[Text] Jinan, March 3 (XINHUA)—East China's Shandong Province will spend five billion yuan to renovate existing enterprises this year, according to the provincial economic commission.

Of the total, 3.3 billion will be used for technical upgrading of state-owned enterprises, and the rest will be used for collectively-owned and township enterprises.

In 1989, Shandong spent 3.52 billion yuan and completed 1,238 technical renovation projects and developed 4,413 new products.

In the past decade, Shandong has invested a total of 23.5 billion yuan in upgrading industrial enterprises and 950 million U.S. dollars to import technology and equipment. As a result, 60 percent of industrial enterprises increased capacity, product quality and management competence.

Wang Chuntao, vice-chairman of the provincial economic commission, said the province owes half of its increased industrial output value and profits in the past decade to technical renovation.

Wang said technical upgrading of industrial enterprises has also contributed to pollution control.

Shanghai Ethylene Project Sets Investment Example

OW0804183890 Beijing XINHUA in English
1236 GMT 8 Apr 90

[Text] Shanghai, April 8 (XINHUA)—Shanghai's ethylene project which went into operation a week ago has found a new method of investment in key construction projects in China, according to local economic experts.

The project with an annual production capacity of 300,000 tons of ethylene, the fifth of its kind in China, cost 3.6 billion yuan (760 million U.S. dollars). All the funds were raised from bonds issued by three local enterprises and financial departments. It was the first time for Chinese enterprises to issue bonds in China and abroad. Overseas bonds amounted to 500 million U.S. dollars.

Economists say raising funds by issuing bonds is an important financial reform as well as a major step in restructuring the investment mechanism for capital construction.

China's key construction projects used to depend on state allocation of funds. The conventional investment mechanism has two main drawbacks—repeated cost overruns and delays, which have caused a chronic shortage of investment and periodic economic overheating.

Self-reliance by enterprises in raising funds will alleviate the strain on state funding, stimulate the initiative of enterprises and strengthen their self-restraint.

As the funds bear an average interest of nearly 13 percent, construction delays would have caused great losses for the enterprises. They made every effort to accelerate construction. The whole project was completed in 35 months, 13 months sooner than the international average for construction of similar projects.

With its considerable profits, the ethylene project is in a good position to repay its debt. The first domestic bonds were paid on schedule in the first quarter this year and foreign debts will be paid through exports or import substitution.

Economists say the successful Shanghai ethylene project will be imitated by some big enterprises in China, such as the Capital Iron and Steel Company and the Shanghai Baoshan Iron and Steel Complex.

FINANCE, BANKING

Enterprises Urged To Clear Up Debts

Commentary on Clearing Debts

90OH0359A Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 1, 4 Jan 90 pp 12-14

[Commentary by special commentator: "Conscientiously Carry Out the Work of Clearing Up Enterprises' Outstanding Payment for Goods"]

[Text] After over one year of rectification and improvement, the development of the national economy has begun to look good. The phenomenon of economic overheating has apparently disappeared, the inflation rate has declined monthly, the product mix has been somewhat readjusted, the momentum of the expansion of fixed-asset investment and consumption fund has been curbed, and money and loan scale have been effectively controlled. However, some new situations and problems have also emerged in economic life. Their prominent expressions are market slump, a substantial increase in product funds, a decline in economic returns, and the occurrence of large-scale default on enterprises' payment for goods.

Causes for Enterprises' Default Are Complicated

Enterprises' defaults on payments for goods are a long-standing problem. Since the adoption of the "double-tight" financial and credit principle in the fourth quarter of 1988, it has become increasingly serious. We should realize that the occurrence of the large-scale chain reaction of default is a reflection of total social demand outstripping total social supply for many years, of uneven economic development, of irrational industrial structure, and of the imbalance of different ratios and relations. It is also a result of gradually exposing many

hidden problems since the rectification and improvement and the implementation of the "double-tight" principle. After concrete analysis we have found causes in the following areas:

1. It is a delayed reaction to economic overheating and the expansion of fixed-asset investment a few years ago. A few years ago, when investment was expanded, a large number of projects which had no reliable source of financing were started in a rush. After rectification and improvement, the scale of fixed-asset investment and the funds of all sources were obviously reduced. Some projects that had tried to rely on the loans of banks or trust and investment companies had to turn to enterprises to raise funds. Some of them had difficulties in payment due to the lack of insurance of funds. Others that had been cut, suspended, or shelved unilaterally, terminated supply contracts with manufacturers that produced equipment and capital goods while the suppliers still insisted on delivering the goods according to the contracts, thus causing defaults on payments for goods.

2. Key state construction projects have no guaranteed sources of funds. Due to the slow speed in which key state construction bonds are issued, funds raised cannot meet the spending need of those projects which are financed with bonds. Those projects which rely on budget appropriations are also in arrears with construction payment because revenue funds cannot be allocated in time.

3. Market slump, poor capital turnover of enterprises, and clogged marketing channels caused defaults. After the market slump, some enterprises could not turn their products quickly into cash. Thus, on the one hand, they were unable to pay for raw materials and had to owe others. On the other, they could not but sell their products on credit to commercial and supplies departments for consignment sale or allow other production enterprises to use their products.

4. After banks reduced loans for enterprises in the third and fourth categories, these enterprises managed to maintain production by not paying for the goods they bought before the readjustment of product mix, causing a chain reaction of third- and fourth-category enterprises owing first- and second-category enterprises and small enterprises owing large and medium-sized backbone enterprises.

5. Some enterprises do not honor their contracts, refuse to pay after receiving goods, and deliberately hold up other people's funds. Some enterprises are not very short of money, but in order to use other people's funds for free they forget about their reputation and put off payment for goods as long and as much as they can. Some enterprises refuse to pay others because they are not paid, thus upgrading and gradually escalating the "default wind" which has already started to blow.

6. Some banks have serious selfish departmentalism. They use illegal means such as "holding checks" to delay and hold customers' funds, block other banks' funds, and misuse out-of-town funds, thus promoting the "default wind" among enterprises.

Now the large-scale default of enterprises has become one of the problems most needed to be solved in China's economic life. If we fail to adopt effective measures to solve and guide them, it will be extremely detrimental to doing a good job in rectification and improvement, overcoming current economic difficulties, and achieving the sustained, stable, and coordinated development of the national economy. We must pay adequate attention to this issue.

Sizable Achievements Have Been Made in the First Period of Debt Clearing

Since the third quarter of 1988 when we began to make great efforts to clear debts, we have made sizable achievements in this regard. First, all localities have established organs to take care of the debt clearing work. Some local leaders in charge of economic work have personally assumed leadership in this work. Various banks and departments concerned have transferred special personnel to establish a debt-clearing office to take care of day to day work. Second, we have found out how the matter stands. Generally, we clarify the amount of money we owe others and others owe us at three levels—regional, departmental, and transregional—and analyze the cause of defaults to have a clear picture of the situation. Third, we have determined the scale and focus of the debt-clearing work. Basically we consider the following as the focus: relieving large- and medium-sized backbone enterprises of their debt burden and supporting foreign trade export and import and the procurement of farm and sideline products.

As for concrete measures to clear debt, all localities have had some very good inventions and gained some successful experiences. There are mainly four measures: The first measure is to have payers, focusing on key units within a department, initiate total account settlement with units inside and outside their province and municipality and pay off the balance of their debts with borrowed money. The industrial and commercial bank adopted this measure and cleared over 19 billion yuan of debts for over 10,000 large- and medium-sized backbone enterprises on two occasions in October and November 1989. The second measure is to have enterprises in the same region meet directly and settle accounts first with the payers. Some urban banks have organized debt-clearing talks to allow local enterprises with large amounts of debts to meet and talk directly with each other. Banks of both sides act as witnesses and offer proper amounts of loan input. One input of a loan can solve a series of default problems, thus gaining fairly good results. The third measure is to clear from the source regarding a certain commodity. One end pours in money and the other end receives it while the debts of key middle links are being cleared. In September 1989, the People's Bank, the Industrial and Commercial bank, and the Bank of China jointly organized an effort to clear the debts regarding imported grain. Consequently, grain supply and marketing enterprises and grain import enterprises in the middle link cleared their debts all at once, showing a marked result. The fourth measure is to

organize efforts to clear inter-province, inter-city, and inter-bank debts in accordance with economic regions. Large amounts of debts have been cleared as a result for inter-trade and trans-regional enterprises whose economic ties are relatively close.

The first period of debt-clearing work won the applause of enterprises and achieved fairly satisfactory results basically because while enterprises took the initiative to clear debts, banks used their position of credit medium, played up overall advantage and the function of economic lever, proceeded from the situation of national economic development as a whole, and voluntarily adopted measures to help enterprises solve problems. However we must also notice that the development of debt-clearing work is still uneven in different localities and banks. Some have done more than others. Some basically have not done anything. The problem of clearing first and accumulating later or clearing and accumulating debts simultaneously is fairly prominent. Those debts which have been cleared are basically chained together and rather easy to clear. All this shows that the task of debt clearing is still very arduous. We must not be blindly content at existing achievements. Instead, we should carry out the debt-clearing work in a down-to-earth manner.

What Do We Do Next in Clearing Debts

First, we should solve the issue of ideology and understanding. The causes of enterprises' defaults on payment for goods are very complicated. It is also very difficult to clear such debts. But the key still is clarifying the issue of ideology and understanding. The debt-clearing work involves the interest relations of all fields. After debt clearing, some enterprises and enterprises may gain some money while others may lose some. Especially at present, when banks help enterprises clear debts, they always start with debtors. The paying bank should raise funds to put in loans whereas the receiving bank has to loan the paying bank most of the surplus fund it receives so it cannot benefit too much either in reality. As a result, it is normal for people to have negative thoughts of one kind or another. But as a credit medium which has economic levers and is responsible for macroeconomic regulation, banks should look at the debt-clearing work at the altitude of accelerating the normal development of the national economy, help local governments and enterprises establish the idea of taking the whole country into account, proceed from the interests of the whole, and refrain from being preoccupied with their own gains and losses. They should pay what needs to be paid, receive what needs to be received, and regulate what needs to be regulated. They should not do those things that benefit only their own area and department and hinder the situation as a whole. Only when everybody has established a correct debt-clearing concept can we do a good job in this important matter that concerns the economic situation as a whole. In the process of clearing debts, we should give appropriate support in regard to the scale of credit and funds to those regions, departments, and enterprises which have the cardinal principle in mind

and take the overall situation into account. Conversely, we should criticize and educate those which practice selfish departmentalism, are calculating, and adversely affect the interests of the whole. We should impose sanctions against them if necessary.

Second, we should rely closely on the leadership of local government organs and strengthen coordination with the departments concerned. Enterprises' defaults on payments for goods are due to complicated causes in economic life. Clearing debts with bank assistance can solve only part of the default problem. We should start with two aspects simultaneously: a temporary and a permanent cure. The key to formulating and implementing radical measures lies in government organs at all levels which need to adopt some macroeconomic measures. For instance, while continuing to reduce capital construction scale, we should put necessary funds into key projects to help them complete construction as soon as possible and begin operation. We should develop the "reservoir" function of commercial and supplies departments, vigorously procure manufactured goods that affect the national economy and the people's daily life, unblock circulation channels, organize the transfer of manufactured goods to rural areas, and expand their sales. We should hold capital goods exchange meetings of various kinds, formulate related promotional policies, and revitalize enterprises' supplies and funds. Banks should vigorously support government organs at all levels in formulating and implementing related measures that promote sales and reduce debts. They should help enterprises improve administration and management, increase economic returns, readjust product mix, and ensure that policies favorable to clearing debts are implemented.

Third, debt clearing should be combined with rectification, improvement, and the deepening of the reform. When banks help enterprises clear debts, they should not clear every debt, nor should they simply clear just enterprises' debts. Instead, they should embody the demands of the industrial policy and the rectification and improvement campaign. 1) Debt clearing should be combined with the readjustment of industrial and credit structure to focus support on large and medium-sized backbone enterprises and funnel funds into the key projects which the state wants to protect. 2) Debt clearing should be combined with inventory clearing, potential tapping, and fund revitalizing to encourage enterprises to improve administration and management, expand sales, and reduce the irrational occupation of funds. 3) Debt clearing should be combined with the input of various funds and the use of starting funds to ensure that each penny is spent as several pennies to maximize the use efficiency of capital. 4) Debt clearing should be combined with the improvement of settlement system, the observance of settlement discipline, and the fulfillment of purchasing and marketing contracts to guide enterprises in gradually popularizing the instruments of commercial credit and use system, laws, and regulations to restrain enterprises' normal payment activities. 5) Debt clearing should be combined with auditing, inspection, and the strengthening of management and supervision to

correct the abnormal phenomena of vertical barriers and "check holding" between specialized banks and establish and restore normal business transactions and monetary order. 6) Debt clearing should be combined with the establishment and perfection of necessary system, laws, and regulations to prevent the problems of clearing first and accumulating later and repeatedly clearing and accumulating and solve once and for all the problems of enterprises' defaults on payment for goods. In the actual process of debt clearing, bank assistance should not be given to clear old and disputable debts between money-losing enterprises and other enterprises, to pay for transactions in which enterprises have agreed to deliver goods first and pay for them later on deferred payment, to pay for products which have poor quality, high price, and have been unmarketable for a long time, or to clear defaults resulting from overspending special funds and misusing working funds.

Fourth, we should strengthen coordination between banks in economic zones and focus on clearing inter-trade and cross-trade debts. In the first period of debt clearing, specialized banks carried out extensive debt clearing based on departments. Next we need to organize some selective regional inter-trade debt clearing activities. People's banks in all localities should do a good job in leading and organizing work, and all specialized banks should vigorously coordinate with them to clear some debts in regard to horizontal economic integration by starting with smaller ones and gradually progressing in depth. In addition, we also need to choose a few industries where debts are relatively concentrated and adopt the method of clearing from the sources to "have A pay for B's debt" so as to clear debts in the middle link.

Rectification and improvement is the center of economic work for the next two years, and financial departments should render service to rectification and improvement. Helping enterprises clear debts is needed for rectification, improvement, readjusting the industrial structure, and increasing enterprises' economic returns. It is also an objective demand for strengthening the macroeconomic regulation and control ability of financial departments, improving financial service, guaranteeing the completeness of credit funds, and continuing to increase efficiency. Leading comrades of the State Council have ardent expectations on our financial departments. We must rouse ourselves to overcome difficulties, strengthen coordination, work hard with concerted efforts, and vigorously carry out the debt-clearing work.

Banks' Role in Settlement

900H0359B Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 1, 4 Jan 90 p 15

[Article by Liu Tinghuan (0491 1694 3562), Vice President of the Industrial and Commercial Bank of China: "Develop Banks' Intermediary Role To Help Enterprises Clear Debts"]

[Text] The huge sum of the "triangular debt" among industrial and commercial enterprises in recent years

and the extensiveness of involvement are unheard of. To solve this problem, the leaders of the State Council have issued instructions and the People's Bank has made arrangements on many occasions. Under the unified leadership of the People's Bank, the headquarters of the Industrial and Commercial Bank of China has also stressed on many occasions to develop bank's intermediary role in funds to help enterprises, especially large- and medium-sized enterprises, clear debts. Through the concerted efforts of all comrades in the bank, according to incomplete statistics, the Industrial and Commercial Bank of China cleared over 55 billion yuan of debts for enterprises as of November 1989.

The bank carried out the debt-clearing work in four directions:

1. Mobilize all forces to carry out fact-finding investigation. In view of the increasingly obvious debt situation of enterprises in the first quarter of 1989, the headquarters promptly issued a "circular on the issue of enterprises' defaults on payments for goods" in April 1989. All branches immediately made arrangements for all levels to mobilize forces on an extensive scale to unify understanding and conscientiously implement the circular. Many branches at various levels established debt-clearing leading groups headed by branch presidents and formed special organs and staff to carry out the debt-clearing work. According to investigations, by the end of March 1989, enterprises which had accounts with the industrial and commercial bank defaulted a total of 74.3 billion yuan of payment to each other.

2. Adopt a variety of methods to clear debts for enterprises within jurisdiction. Taiyuan, Xian, and Changsha took advantage of both creditors and debtors being located in the same cities to hold enterprises' debt-clearing talks. They organized both sides to meet and negotiate directly with each other, with banks acting as coordinators between them and providing some funds, ensuring that the two sides meet, apply for loans, and receive payment all on the same spot. This practice requires little input and yields quick results. With regard to trans-regional defaults, branches in Hunan, Liaoning, Jiangxi, Jilin, Shanxi, and Henan provinces had local banks at the prefectural and city levels exchange bank notes to clear debts for enterprises they represented. Branches at the provincial level were responsible for organizing and providing some start-up funds. This practice also yielded good results. The Tianjin Municipal Branch used the method of combining routine lending with debt clearing, chose the key link, and provided a small amount of funds to clear a series of debts. The Anhui Provincial Branch summarized the debt-clearing work into four phrases: "use a thousand and one methods, spread thousands of words for propaganda, serve millions of households, and brave innumerable hardships at work." This could be considered as the common portrayal of all trades and professions.

3. Organize inter-province and inter-municipality debt clearing. Suggested by the information network headed by the Changsha and Xian branches and tested and

supplemented by the departments concerned organized by the headquarters, a radial debt-clearing method that "is aimed at key enterprises within the same department in different provinces and municipalities, requires the payer to initiate the action in the settlement of all debts, and allows lending and borrowing to make up the difference in the settlement." This method was successful after being used at the Zhengzhou and Zhuzhou meetings. A total of 19.28 billion yuan of defaulted inter-province and inter-municipality payments for goods were cleared at the two meetings.

4. Stress key enterprises and clear debts in accordance with industries. In September 1989, the headquarters issued a circular through telegram, urging all branches to consider large- and medium-sized enterprises as the key units of debt clearing, picking especially large- and medium-sized enterprises in the six industries—metallurgy, chemical, light, textile, first-tier commercial, and grain—to be the key of all key units. At the Zhengzhou and Zhuzhou meetings, a total of 11.1 billion yuan of inter-province and inter-municipality debts were cleared for these six key industries, thus removing many "burdens" for large- and medium-sized enterprises.

All branches have paid great attention to mastering the limit of debt-clearing policy in the debt-clearing work to ensure that debt clearing is combined with the macro-economic retrenchment policy, the readjustment of industrial structure, the credit policy, potential tapping, the revitalization of funds, and the popularization of commercial bills. By so doing they have enabled the debt-clearing work to play a positive role in unclogging capital channels, facilitating the benign cycle of funds, smoothing enterprises' capital and economic relations, and rectifying economic order.

Growth in Savings Deposits Called Excessive

90CE0023A Beijing JINGJI RIBAO in Chinese
24 Feb 90 p 2

[Article by Hu Jizhi (7579 4949 0037): "Excessive Growth of Savings Deposits—Worth Taking Note"]

[Text] In 1989 we saw massive changes in savings deposits in China—going from the four runs on the bank in 1988 to continued high speed overall growth in savings deposits. By the end of the year, the savings deposits of city and town residents throughout China had increased by 133.4 billion yuan, and surplus deposits had reached 513.5 billion yuan. Looked at the main part, this is an important indicator of political, economic, social, and psychological stability in China resulting from the central government's decision to carry out rectification.

However, we cannot overlook the fact that at the same time that savings deposits have seen high speed growth, market sales have weakened, economic results have fallen, mutual defaults are up, banks overall have accumulated losses, and

a series of other problems have grown more critical by the day. This serves to remind us that, while savings deposits grow, we should further analyze and study the issue of savings deposit increases and the national economy's ability to absorb them so as to ensure stability of the national economy and healthy development.

Growth in Savings Deposits and Economic Development

Most people feel that capital is what is currently holding back development of our national economy, and that increasing the supply of capital depends on increasing savings deposits. Each day savings deposits account for a larger portion of the total loan funds available to banks. Savings deposits have become a primary source for the rise in credit availability. Looking at the entire national economy in action, there are numerous crises that lurk beneath such huge savings deposits. Since 1985, the appearance of savings deposit interest rates and the falling results of the industrial economy have led to greater reversals in development. According to statistics, of the total amount of loans made, only about 40 percent of the capital has been truly put to use in the production process. The other 60 percent has gone back into circulation where it is used to pay off debts. With successive years of accumulated funds, banks have incurred increased amounts of idle loan capital. For every 100 yuan of deposits put to use in support of economic growth, 15 yuan is lost. This is to say, for every 100 yuan of savings deposits, banks can only put 85 yuan out into the economy. In reality, the amount of idle credit capital greatly exceeds this number.

This raises a question for us: to what extent should we increase capital investment in order to spur growth of the economy as a whole? Luo Situo [5012 2448 2094] points out that as the economy is starting to escalate, an increased rate of investment does not directly lead to corresponding increases in national production. As for savings deposits, only when the marginal cost of savings deposits does not exceed the marginal income produced by using additional savings deposits for investment is it meaningful to talk about increasing the amount of savings deposits. Danielson [dan nisun 0030 1441 6676] analyzed the statistics concerning the sources of the fairly long-term economic growth in several economically developed western nations and it reveals that the 25 years of economic growth in the United States from 1948 to 1973 were only influenced by capital to the extent of 19.45 percent. The 12 years of West German economic growth from 1950 to 1962 were only influenced by capital to the extent of 22.48 percent. And, Japan's 18 years of economic growth from 1953 to 1971 were only influenced by capital to the extent of 20.99 percent. Thus, it would be quite dangerous for us to place all of our hopes for economic growth in expanded investment capital availability.

Savings Deposits and Their Influence on Objects Composing National Income

We know that savings deposits represent funds left over after consumption, and that through savings deposits the

consumption fund becomes the production and construction fund. In reality, this represents a re-distribution of fixed national income. Thus, one important condition in using savings deposit to invest is to take a look at the material composition of the national income. If the supply of living materials exceeds the supply of means of production, increases in savings deposits at such a time would lead to a dual effect: On the one hand, it would lead to difficulties in selling living materials that have already been produced. On the other hand, it would further exacerbate the shortage of means of production and lead to shortages in production of consumer products and sluggishness in the daily consumables at the same time. Today, with our increased savings deposits, this dual effect constantly grows more evident.

Statistics show that in 1988 our gross national product grew 11.2 percent from the year before. Of this growth, total energy resource production grew only 4.2 percent, steel production grew 5.2 percent, and the commodity turnover caused by the various forms of transportation (including the railroads, the highways, water transport, air transport, oil and gas pipelines, and so on) grew only 5.1 percent. However, household electric refrigerator production grew 84.4 percent and color television production grew 52.8 percent. From this we can see that in our current product mix such bottom line capital industries of society like energy resources, transportation, and materials are growing much slower than are the finished product consumables. Also, we can add the tendency of banks to exhibit more provincial, decentralized behavior as a result of reforms. This in itself also spurs on behavior which "worsens the glut." Under these conditions, the promotion of excess growth of savings deposits is a cause of worry.

Growth of Savings Deposits and Bank Management

Under market mechanism conditions, banks find their profits in the differential between deposits and loans. For years in China we have adopted a policy of encouraging and giving preference to people's savings deposits, and the interest rate on savings deposits has greatly exceeded that for public funds. The interest rate reforms in February 1989 evened out the interest rates on various savings deposits. But, value assurance measures for savings deposits caused the nominal income on savings deposits to be higher than that for other deposits.

Interest rates on bank deposits and loans have been flipped upside down, and with savings deposits comprising an increasingly large portion of a bank's funds and with increases in overall bank debts, bank profits have been greatly reduced. Looking at the Wuhan City Bank of Commerce and Industry's cost accounting analysis for the years since 1986, in the four years from 1986 to the end of the first half of 1989 the costs of savings deposits greatly exceeded the overall cost of funds, and in two years the cost of savings deposits were double that of overall funds. If we compare the cost of savings deposits with the income rate of funds overall, aside from 1986 when there was a slight profit made, each of the following years met with losses. Particularly worth

noting is that in the first half of 1989 after savings deposit value assurances went into effect, the monthly cost of a 1,000 yuan savings deposit increased an enormous 3.8 yuan beyond that of the preceding year. And with increased deposits as a result of the value assurances, the overall cost grew even higher and losses zoomed to 3.96 yuan beyond that of the previous year. Small, rural, grassroot banks and credit unions have been hit even a bit harder by this phenomenon.

Bank losses are noteworthy. Banks are economic organizations engaged in currency management, and thus, when banks lose money or go bankrupt it has a much wider effect than if the same were to happen to a run of the mill industry. In China, aside from managing themselves, banks also shoulder the burden of macroeconomic management and macropolicy on loans. Currently, the supply of bank credit is greater than 80 percent of the amount of enterprise funds in circulation. Thus, when banks lose money it is not just a problem concerning their own management, but it is something that it is intimately tied in with the movement of the entire national economy.

Proposals for Controlling and Regulating the Growth of Savings Deposits

With savings deposits increasing by the day, we must raise the efficiency of fund use, strengthen the absorptive ability of the national economy, see that more banks survive, and promote continuous normal operation of the whole national economy. And we must intensify our study of how much growth of savings deposits is proper. The following proposals are made in this regard:

—We must cut back the various measures and methods that are currently being employed to promote excessive growth of savings deposits. Key items include: cooling down the overheated advertisements and publicity for savings deposits; the various kinds of excessive savings deposits must be sorted out and merged together, and in particular we must strictly forbid deposit incentives and inducements, gifts for deposits, deposit discounts, and other sorts of savings deposits that prey on the people's fondness for gifts and free surprises—savings deposits must be made on the basis of the true desire of the people. At the same time, we must improve the methods by which bonuses are linked to growth in surplus savings deposit contracting. We must promote an attitude of service in savings deposit work, and we must raise the quality of the service.

—We must establish a system to monitor the proper growth of savings deposits, and we must strengthen the purity of the saving deposit. In recent years, the portion of the new growth in savings deposits that is truly "post-consumption surplus of the individual" has steadily declined. At the same time, we have seen a steady increase in savings deposits from individual household enterprises, specialized household enterprises, funds earned by contracting households, miscellaneous income of units, and the income from various unascertained sources. In

some places, private deposits of public funds make up over 50 percent of deposits. We are seeing a change in the nature of the savings deposit. To resolve this problem, aside from strengthening such things as thought education and administrative methods, and preventing private deposits of public funds, even more important and widespread is the need to establish a system to monitor the proper growth of savings deposits that would correctly and concretely monitor the indices, manage the methods, ensure normal growth of savings deposits, and strengthen the purity of the savings deposit.

—It is inadvisable to make the growing savings deposits the source of funds for the expanding bank loans. For various reasons, savings deposits have less of a connection with scientific and technological advances, management and administration, and superior compositions, and more of a connection with fund availability. This makes the contradiction between shortness of credit and economic development and societal stability even more abnormally pronounced. Under these conditions, the various levels and locales inevitably select excessive growth of savings deposits as the method of choice for expanding supply and alleviating contradictions. From a long-term planning perspective, this is less than ideal policy. So, I propose that the central bank raise the reserve fund required for savings deposits and limit the excessive growth of credit.

—We must use every possible method to stimulate demand for low- and medium-grade items, induce market currency to go toward consumption, and reduce the pressure that savings deposits put on the currency. From a policy standpoint, the finance and tax departments, among others, should see that enterprises that cut prices and take losses on commodities are allowed to figure this in as a deduction, along with profits, in the contract index so that sales of commodities with reduced prices open up the frozen areas of the market. In the area of commodity flow, we should key development of rural commodity markets, as well as organize and expand commodities in the towns in order to withdraw currency from the market.

—We must strengthen credit structure adjustments, strictly carry out methods that "divide and define enterprises, and classify loans," ensuring that funds go toward key enterprises and items. At the same time, while working harder to strengthen enterprise administration and improve management, we must heighten the ability of enterprises to absorb savings deposit funds, and see that better results are had from existing funds.

INDUSTRY

Steel Industry Expansion To Use Foreign Funds

HK2703155390 Beijing CEI Database in English
27 Mar 90

[Text] Beijing (CEI)—In the 1990s, China plans to introduce 10 billion U.S. dollars of foreign funds for expanding steel output by 20 million tons.

According to Zhang Ying, deputy general manager of the China Iron and Steel International Investment Corp., 12 iron and steel makers have been slated for using foreign funds.

For example, the Anshan Iron and Steel Co. signed loan contracts with foreign countries to produce 2 million tons of steel products and seamless steel tubes, while the Laiwu Iron and Steel Works in Shandong Province also initiated 240 million U.S. dollars contract with foreign countries (half of which originated with the Asian Development Bank) to produce 400,000 tons of steel products. Other iron and steel works that plan to introduce foreign funds for expansion of production include the Tianjin Seamless Steel Tube Works, the Wuhan Iron and Steel Works, the Bengi Iron and Steel Co., the Meishan Metallurgy Co., the Maanshan Iron and Steel Co., the Taiyuan Iron and Steel Co. and the Xiangtan Iron and Steel Co.

Foreign funds are also needed for the construction of two 400,000-tons steel works respectively in Putian, Fujian Province and Guangzhou, Guangdong Province. They will mainly produce the badly-needed seamless steel tubes, cold- and hot-rolled steel plates and special steel products for automobiles.

Although China produced 60.1 million tons in 1989, more than 10 million tons of imported steel products are required annually. The aim of pooling a large amount of foreign funds is to quicken the production of those steel products that are in short supply on the home market and locally produce all the variety in needs.

The main channels of foreign funds for China's iron and steel industry include loans from foreign governments and international financial organizations, and commercial credit. Since 1978, China has spent five million U.S. dollars in foreign funds for the import of 700 items of technology and facilities.

Iron, Steel Output Increases

OW2103182690 Beijing XINHUA in English
1528 GMT 21 Mar 90

[Text] March 21 (XINHUA) [dateline as received]—China produced 10 million tons of iron and steel in the first two months of this year, 208,700 tons more than the target.

About half of the newly added output came from the country's 36 leading iron and steel works.

Small and medium sized steel works turned out 492,900 tons of iron and steel, above the national average growth rate.

A government official attributed the increased output to a series of government measures for iron and steel production, including giving them priority in energy, transportation and government loans.

However, the official noted, problems, such as a high output of steel and not enough iron, insufficient funds and increased production costs, still exist.

First Quarter Output of Energy, Basic Products Rises

OW0904225690 Beijing XINHUA in English
1500 GMT 9 Apr 90

[Text] Beijing, April 9 (XINHUA)—China's industrial structure has turned for the better, with basic products growing steadily and processed industrial products dropping obviously in the first quarter of this year.

According to information provided by the State Statistics Bureau here today the total output of energy climbed by 6.7 percent, including coal up eight percent and electricity up 7.9 percent, compared with the first three months of last year. Thus, a solid foundation has been laid this year for the raw materials industry.

According to the bureau, pig iron, alloy, steel, rolled steel, non-ferrous metals and soda increased by from 8.8 percent to 22.9 percent. Fertilizer and pesticide outputs also grew steadily.

However, China's processing industry, especially electrical machinery and building materials, declined. The output of bicycles, sewing machines, cameras, color TV sets, washing machines and household refrigerators fell by from 18 to 49 percent.

Slump Continues in Machinery, Electronic Industries

HK1104032090 Beijing CHINA DAILY in English
11 Apr 90 p 2

[Text] The production of China's machinery and electronics industry was still in decline during the past three months.

The decline continued despite the fact that China had halted negative industrial growth by March.

The industry's production value was 40.1 billion yuan (\$8.5 billion) during the past three months, a decrease of 8 percent from the same period last year, said Jing Zhong, an official with the Ministry of Machinery and Electronics Industry.

According to the ministry's plan, this year's production value is to increase by one percent, since the austerity policy has reduced orders to machine-builders and electronics producers.

The drop was a dramatic one compared with 1988's 25.1 percent increase over the previous year.

The machinery sector's production value was 24.1 billion yuan (\$5.13 billion), a decrease of 7.2 percent from the same period of last year.

In that sector, automobile output was 85,000 units, an decrease of 37 percent, and that of small-sized tractors was 21,000 units, a decrease of 24.6 percent.

But ship production was an exception. The State Ship-Building Corporation increased its production by 18.8 percent with an output value of 1.16 billion yuan (\$246 million) by the end of March.

The electronics sector's production value was 13.6 billion yuan (\$2.9 billion), a decrease of 10.2 percent.

Products which had a sharp output drop included: 1.79 million colour television sets, down by 30.8 per cent; 20,000 video tape recorders, 55 percent decrease, and 6,900 microcomputers, 34.6 percent decline.

Baoshan Steel Plant To Increase Production

HK0404033690 Beijing CHINA DAILY in English
4 Apr 90 p 1

[Excerpts] Baoshan Iron and Steel Complex in Shanghai—the fourth largest plant of its type in China—plans to turn out 4 million tons of steel this year, 325,000 tons more than in 1989, and to create about 2 billion yuan in profit tax which would double the figure for last year.

And planned output of hot and cold rolled steel this year will be 1 million and 800,000 tons, said Wang Peizhou, president of Baoshan Iron and Steel Complex.

He also said that the complex has imported about 350,000 tons of iron ore, 200,000 tons of scrap steel and 330,000 tons of steel ingots to produce high-quality steel products for international markets thus to "bring more profit for the State."

According to Wang, last year Baoshan produced 3.7 million tons of steel, 3.26 million tons of pig iron and 3.75 million tons of other steel products as well.

The profit tax of the plant last year totalled around 1 billion yuan, doubling that of 1988.

Besides meeting the need for the domestic market, about 60,000 tons of steel products were exported last year.

Statistics revealed that every year the State spends about \$6 billion importing steel products. [passage omitted]

After completion of the second phase of construction, Wang said, the complex will be able to produce 6.7 million tons of steel and 4.2 million tons of products, chiefly rolled steel and tubes, annually.

Three plants for hot rolling, cold rolling and continuous casting either have been or will be put into production this month.

Guangxi Industry Registers Growth

HK2003092490 Nanning Guangxi Regional Service
in Mandarin 1100 GMT 18 Mar 90

[Summary] According to the regional statistics bureau, regional industrial production grew in 1989, despite such unfavorable factors as a soft market. Regional industrial output value totaled 32.37 billion yuan in 1989, an increase of six percent over 1988. State-run industrial enterprises accounted for 23.65 billion yuan of the total industrial output value, a 4.7-percent increase; industrial enterprises under collective ownership accounted for 5.49 billion yuan, showing a growth of 7.3 percent. Some products were readjusted in line with the state industrial policy. Basic industry and the energy and raw and semi-finished materials industries were strengthened. Processing industry enterprises producing cane sugar, paper, canned food, wine, and tobacco, which had access to abundant local raw materials, registered a bigger increase in output. Output of high-grade and durable goods dropped markedly. Last year the region's industrial production was disturbed by interferences from all quarters, enterprises operated at under capacity, and economic returns declined. According to statistics, the budgeted profits earned and taxes turned over to the state by state-owned industrial enterprises were up nine percent over 1988, but the growth rate was down 10.3 percent. Funds for products and finished products increased by 67.4 percent. The amount of enterprise loss increased by 35.8 percent. A cadre from the regional statistics bureau said that the overheated economy during the past two years led to decreased industrial production last year. This situation will be short-lived. Currently interference from all quarters is being reduced. Industrial enterprises should readjust their product mix and improve product quality in order to greet the favorable turn of the economy.

Hunan Industrial Production Declines in March

HK2703094890 Changsha Hunan Provincial Service
in Mandarin 2500 GMT 26 Mar 90

[Excerpt] The provincial people's government held a telephone conference on industrial and transport production on the afternoon of 25 March, calling on the province's industrial and transport production workers to work as one, stage a strenuous fight in the second quarter of the year, and brace themselves overcome difficulties and maintain a stable development in industrial and transport production.

The meeting was presided over by provincial economic committee chairman (Xu Youfa), and Vice Governor Yu Haichao delivered a speech. He first talked about the situation in industrial and transport production over the past two months. He said that thanks to concerted efforts, the gross output value of the province's industrial production in January and February stood at more than 5.1 billion yuan, a 7.3-percent increase over the same period last year. But industrial production started going

down in March, and if proper arrangements cannot be made, March output is likely to go down. [passage omitted]

Hunan Industrial Output Value Tops 12 Billion Yuan

HK1004083190 Changsha Hunan Provincial Service in Mandarin 2300 GMT 9 Apr 90

[Excerpt] [passage omitted] Statistics released by the Hunan Provincial Statistics Bureau showed that in the first quarter of this year, Hunan's industrial output value stood at 12.694 billion yuan, representing a 4.9-percent increase over the corresponding period last year.

The production of some 45 out of Hunan's 80 key industrial products, which accounted for some 56.3 percent of the total number of key industrial products of Hunan Province, witnessed a sizable increase over the corresponding period of last year.

CONSTRUCTION

Capital Construction Investment Decreases

OW2003143690 Beijing XINHUA in English 1051 GMT 20 Mar 90

[Text] Beijing, March 20 (XINHUA)—China invested 7.4 billion yuan in fixed assets of state-run enterprises in the first two months of this year, 6.9 percent down from the same period of last year, according to a report publicised by the State Statistics Bureau today.

Experts say this is consonant with the central government's austerity program, which aims to curb demand. Under the policy, the Chinese Government pledges to increase investment in such basic industries as agriculture, energy and transport while cutting investment in some ordinary processing construction projects.

Of the entire investment in the first two months, 5.7 billion yuan was used in capital construction, up 0.6 percent over the same period of last year. And technical renovation investment was 22.5 percent down.

However, an official from the bureau warned of an increase in newly started projects and the expansion of investment scale in some places despite a decrease in actual investment.

The official said technical renovation and capital construction projects which cost over 50,000 yuan each come to 481, 60 more than the same period of last year [as received].

Therefore, the bureau suggested that annual investment be increased, particularly loans for technical renovation and some key projects in agriculture, energy, transport and telecommunication.

FOREIGN TRADE, INVESTMENT

Continuation of Foreign Trade Contract System Expected

90OH0425C Hong Kong CHING CHI TAO PAO [ECONOMIC REPORTER] in Chinese No 4, 15 Jan 90 p 16

[By Li Tsao (4539 2483)]

[Text] This is the third year that China has implemented the foreign trade contract system. There has recently been some discussion about this reform that was put into effect in 1988, and the views differ. Deputy Premier Tian Jiyun [3944 4764 0061], the Chinese government official responsible for foreign trade affairs, in a recent speech gave his complete approval to this reform measure. He declared that the principle and secondary aspects of the reform of the foreign trade system and the "separate piece contracts" [qiekuai chengbao 0434 1040 2110 0545] have to be clearly distinguished. Generally speaking, the principle aspects have been good and highly successful. They have inspired the enthusiasm of the localities and enterprises for exports, moderated the financial difficulties of the central authorities, mitigated, to a certain extent, the foreign exchange market, and thereby expanded exports. At the same time, problems such as dispersal of foreign exchange, a rise in domestic prices, and panic buying have occurred. Some problems existed before the reforms, others could be contradictions that were exacerbated after the reforms. Tian Jiyun stressed that the reform of the foreign trade system must be analyzed and treated by seeking truth from facts and that hard work will be needed to deepen and perfect it further.

In 1988, the State Council decided to carry out a major reform of the foreign trade system. Various localities and various specialized foreign trade controlling companies contracted with the central authorities with respect to foreign exchange earning exports, turning foreign exchange over to the state, and profit and loss norms. The terms could not be changed for three years. During the first year of the reform, Chinese exports went from \$34.6 billion of the previous year to \$40.6 billion. During the second year, 1989, even under conditions rising prices, shortages of funds, and insufficient raw materials, exports still exceeded those of 1988. It is not hard to see from this the enthusiasm brought by the foreign trade contract system. Furthermore, because of the three targets of the contracts and because they could not be changed for three years, the central authorities did not have to increase their funds support at all, even under conditions of rising prices for two years in a row in 1988 and 1989. It will not be easy to continue to increase exports.

It is expected that the exports environment this year will be somewhat more relaxed because of the recent downward adjustment of the renminbi. This is the final year of the three-year contract periods. What will 1991 bring? According to the analysis by the experts, the financial

system of "eating from different pots" [separate budgetary plans for central and local authorities] and foreign trade contracts will not change. If there are any changes, they will merely be slight readjustments.

Committee Official Urges Strengthened Trade Laws

900H0399A Beijing GUOJI SHANGBAO in Chinese
1 Feb 90 p 1

[Article by Gu Ming (7357 2494), vice chairman of the NPC Law Committee: "Strengthen Foreign Trade Legislation"]

[Text] It does not matter if a country is a socialist or a capitalist country, a well-developed or a developing country, any country that closes its door to the outside world, that sticks to convention, that stands still and refuses to make progress will always remain a backward country. If we want to become a modern country, utilize foreign capital, bring in foreign technologies, and explore the ways of reform, we must develop foreign trade and economic and technological interchange and cooperation. International trade is commercial intercourse between two countries or between a country and a region. Each country has its own legal system. Not only must we abide by each country's laws but we must also comply with the bilateral and multilateral treaties and international pacts and agreements signed and recognized by international parties. Therefore, we cannot just do as we please but must follow the law. Those dealing with foreign trade must know the law, understand the law, rely on the law, comply with the law, do business according to the law, and use legal means to protect China's and her enterprises' interests. Although we have achieved tremendous success in international trade, we have also incurred substantial losses, because our legal system is imperfect, some of our personnel have a weak sense of the law, the technical inspections are not thorough, there are omissions and careless clauses and even errors in the contracts, and because we fail to inspect the imports and exports promptly and carefully.

For example, we brought in 13 chemical fertilizer plants in the 1970's that were supposed to produce 300,000 tons of synthetic ammonia a year, but three of the compressors were substandard, and because the technical inspection was haphazard and the contract was hastily signed, when those plants were completed, their annual production was only 75 percent of capacity, causing serious losses.

Also, a few years ago, because of the reckless expansion of capital construction, we urgently needed to import huge quantities of steel. We signed a contract with some foreign merchants to import five loads of steel. We did not check the seller's qualifications and credit, nor did we complete the contractual formalities regarding transportation; the shipment was not inspected, and the merchants were paid when they presented their phony documents. We were swindled by crooks and the state incurred a huge loss.

Furthermore, after a decade, we still have not familiarized ourselves with the United States', Canada's, Australia's and other countries' antidumping laws; as a result, there have been more than 50 lawsuits brought against us over more than 40 products sold in those countries. As a result, we have lost more than 20 of those cases; in some cases, the fine was more than 100 percent, and we also have lost some markets.

In addition, because we are ignorant of other countries' product liability laws, our export goods have caused accidents and have been impounded or confiscated, and we even have to pay huge damages. Because we fail to inspect our imports promptly, many of our imported goods have turned out to be bad products. Some have been inferior, disguised as superior products; others are old disguised as new products; some are actually old. Chinese-made equipment pretending to be new, foreign imports; and third rate tobacco has been imported as first rate tobacco. Worse yet, we had a container of imported goods that turned out to contain rocks, rubbish, and waste liquid which had been brought in as luxury, important goods, and because the inspection was done after the claim period had expired, we suffered a serious loss.

Thus, in dealing with foreign trade, we must rely on our legal weapon, abide by the law, and struggle relentlessly against crooked foreign merchants and malevolent elements within our own ranks and their illegal acts.

To enhance our foreign trade legislations, I suggest the following measures:

1. We should expedite the promulgation of foreign trade laws, modernize the foreign trade undertakings, and put them onto a legislative track. Our foreign trade links us with more than 180 countries and regions and takes us to every corner of the world. We work 24 hours, day and night. Therefore, we need science, communications, and electronics in our work method, law, and system in our business management. We must do everything according to the law, making sure that rules are followed. Essential foreign trade laws and regulations, such as foreign trade law, maritime law, and foreign exchange management law, should be promulgated as soon as possible. Clauses in the existing laws and regulations that no longer suit the new situation, such as the Sino-foreign Joint-venture Law, should be revised immediately. We should strive to become a party to any international pact, treaty, and agreement which may benefit China's foreign trade development, such as the GATT, as soon as possible.

2. We should popularize legal education and make sure that all leading comrades and personnel in foreign trade enterprises and institutions understand and are familiar with all foreign trade laws and regulations. In assigning management and operational cadres of all ranks, we should assign and train one or two cadres who understand law.

3. We should install law offices or legal consultants in the foreign trade units. Lawyers must be present when

negotiating and signing important contracts. Other contracts should be examined by a lawyer before being signed.

4. Those traveling abroad on foreign trade business, especially leading cadres and business personnel in foreign trade organizations stationed overseas, must know the laws of the land. They should familiarize themselves with the trade laws and rules and regulations of the country with which they do business.

5. We should gather and publish a collection of essays on foreign trade success stories and failures and sum up the experiences and lessons to educate the cadres and improve their work standard. There are successes and failures in any kind of undertaking, and foreign trade is no exception. Our foreign trade experience is especially precious, because it is bought with the sweat and blood of the Chinese people. We should sort out the examples and publish a book. Our losses can be looked at as tuition and the lessons our treasure and we want to accumulate experience to improve our foreign trade undertaking.

6. We should speed up the trial of economic cases that involve foreign nationals at above the intermediate people's court level in the coastal region. We must deal with the economic cases that involve foreign nationals promptly. To protect the state's rights and privileges, all major cases that involve foreign nationals, except those that can be resolved justly through arbitration, should be tried and decided by the courts and must not be settled illicitly.

In short, we must review our foreign trade laws carefully, learn from the beneficial experiences of other countries, do a better job with legislation, judicature, law enforcement, universal legal education, and legal research, and strive to modernize our foreign trade system.

Views on Rate of Foreign Trade Development

900H0444A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 1, 31 Jan 90 pp 2-6

[Article by Chu Xiangyin (0328 4382 6892): "Discussions and Reflections on the Pace of the PRC's Foreign Trade Development"]

[Text] As to the pace of the PRC's foreign trade development, which strategic foreign trade objectives we want to achieve by the end of the 20th century has always been a hot topic of conversation in our discussions of economic development. Comrades in domestic academic and theoretical circles and actual foreign trade work departments have copiously quoted from authoritative works and expressed many different opinions based on domestic and foreign experiences and data, and each has aired and holds varying views on the subject. This article will sum up the major views that came out of these discussions, compare our actual foreign trade developments in the last decade, analyze the characteristics of our foreign trade development, probe into the issue of

the future pace of our foreign trade development, and give a rough view of our strategic foreign trade development objectives for the last decade of the 20th century.

I

The general economic development objective proposed by the 12th CPC Congress for the PRC by the end of the 20th century was, premised on constantly improving economic efficiency, to strive to quadruple our GVIAO [GROSS VALUE OF INDUSTRIAL AND AGRICULTURAL OUTPUT] to 2.8 trillion yuan. Then the Ministry of Foreign Economic Relations and Trade (MOFERT) correspondingly proposed to quadruple our foreign trade from its 1981 base, i.e., to achieve a foreign trade turnover of \$160 billion by the end of the 20th century, an average growth rate of 7.6 percent a year, and a foreign trade balance of \$80 billion for both imports and exports. This set off a lively discussion in academic circles on this strategic objective, from which the following three major views emerged:

1. Achieving the strategic objective proposed by MOFERT of quadrupling our foreign trade would be quite difficult, mainly as to exports. Since it would be very hard to make a big breakthrough in the immediate future in our earnings from major commodity exports because of problems in areas such as domestic production and international market competition, it would be hard to expect a big increase in exports, and every advance would require hard work.

2. Since the objective proposed by MOFERT of quadrupling our foreign trade was quite suited to China's realities, it would be possible to achieve it through hard work even though there would be a certain amount of difficulty in increasing exports.

3. The objective of quadrupling our foreign trade by the end of the 20th century was too low, and it could be sextupled or even a little more, mainly for the following reasons: A) From a historical perspective, our pace of foreign trade development should be faster in the next 20 years than it was in the past 30. From 1950 to 1980, our export trade turnover increased by over 3,200 percent and grew at an average rate of 12.4 percent a year, or 8.4 percent a year counting inflation. We should strive to exceed this rate in the next 20 years. If we could push our export trade turnover up to an average growth rate of 9.5 to 10 percent a year, it could reach \$120 billion and we could achieve the strategic objective of sextupling our foreign trade turnover to \$240 billion by the end of the 20th century. B) Quadrupling our GVIAO and foreign trade would not bring into full play the impact of foreign trade on speeding up the growth of the national economy. Quadrupling our GVIAO would put its average growth rate at 7.2 percent a year, while quadrupling our foreign trade would put its average growth rate at only 7.6 percent a year. This would leave them at a too low ratio of 1:1.05 and make it hard to either ensure the achievement of the strategic objective of quadrupling our GVIAO, or bring into full play the impact of foreign

trade on speeding up the growth of the national economy. As the ratio between the growth rates of our GVIAO (counting inflation) and foreign trade volume was 1:1.08 for the past 30 years, our foreign trade turnover should be able to be sextupled or even a little more by the end of the 20th century if we increase this ratio to 1:1.3-1.5. C) Our exports account for too low a percentage of our GVIAO, generally only about four to five percent. If we increased this to 10 percent or even a little more, the 2.8-trillion-yuan that our GVIAO would reach by the end of the 20th century could be converted into about \$120 billion at the year 2000 exchange rate. The experiences of many countries confirm that this percentage can be achieved. Statistics from the U.S. INTERNATIONAL ECONOMIC INDICATORS show that the gross export values of some countries accounted for the following percentages of their GNPs in 1979: 22.4 percent in the United States, 53.3 percent in West Germany, 35.8 percent in Japan, 50.8 percent in France, 72.2 percent in Great Britain, 85.7 percent in Canada, and 58.9 percent in Italy. Our exports account for a far lower percentage of our GNP than do theirs. D) As our foreign trade accounts for such an extremely small percentage of and hold such an extremely low position in world trade, we should strive to change this situation. Our gross export turnover now generally accounts for only about one percent of the world's gross export turnover, and never topped two percent even in its best year. As this is very unsuited to our status as a great socialist power, we should gradually increase this percentage to improve our standing.

The comrades who hold this third view think that the above pace of development is certainly not unattainable. This has been mostly confirmed by the economic growth in other countries, and the foreign trade growth rates of certain new developing countries whose economies are taking off are far higher than the rate we had hoped for. Our present particular conditions contain the following favorable factors for realizing a faster pace of foreign trade development: 1) In line with our basic national policy of "opening up to the outside world," all industries, from state-owned to local ones, have been paying particular attention to the development of foreign trade. 2) The stable and coordinated growth of our national economy is providing the basis and guarantees for foreign trade growth. 3) The industrial restructuring that is taking place throughout the world is presenting us with an opportunity and a challenge. Certain comrades who took part in our discussions on economic development have also assumed that since our foreign trade developed at too slow a pace in the 1980s, it will grow by leaps and bounds and develop at a considerably faster pace in the 1990's, based on the good foundation that we laid for it in the 1980's.

II

As the 1980's are barely over, it may be a little too early to evaluate the correctness of the above views. However, conscientiously summing up our actual foreign trade development situation in recent years and analyzing the

discrepancies between our past predictions and our actual foreign trade developments will play a positive role in helping us to further adjust our pace of foreign trade development and revise our strategic foreign trade development objectives for the last decade of the 20th century.

From 1981 to 1988, our foreign trade turnover almost doubled from \$40.375 billion to \$80.49 billion and grew at an average rate of 10.4 percent a year. Our export turnover reached \$40.64 billion in 1988, or 94.5 percent more than in 1981, having grown at an average rate of 10 percent a year, and our imports reached \$39.85 billion in 1988, or 1.05 times more than in 1981, having grown at an average rate of 10.8 percent a year. Moreover, since all of our foreign trade commodity price indexes have tended to fall due to the slump in international market prices in recent years, our foreign trade turnover has grown at an even faster rate counting inflation. From 1981 to 1987, our export trade turnover index grew to 225.0, our import trade turnover index grew to 245.7, our exports grew at an average rate of 14.5 percent a year, our imports grew at an average rate of 16.2 percent a year, our share of world trade increased from 0.96 percent to 1.80 percent, our world trade standing rose from 21st to 11th place, and the ratio between our foreign trade and GVIAO growth rates also increased.

The following two beneficial trends have appeared in our foreign trade development in recent years: 1) Our foreign trade commodity mix has improved somewhat along with the rapid increase in our trade turnover. As to exports, the percentage of our export turnover accounted for by industrial manufactured goods exports rose from 50.4 percent in 1981 to 69.6 percent in 1988, while the percentage accounted for by primary product exports dropped from 49.6 percent to 30.4 percent. As to imports, our consumer goods imports were gradually brought under control and their percentage of our import turnover fell steadily, while the percentage accounted for by production materials imports increased steadily. From 1981 to 1988, the percentage of our import turnover accounted for by capital goods imports rose from 72.8 percent to 90 percent, while the percentage accounted for by means of subsistence imports fell from 27.2 percent to about 10 percent. 2) Our foreign trade conditions have improved somewhat, and our foreign trade price relations have improved steadily since 1981. From 1981 to 1988, our export trade price index dropped to 76.1, our import trade price index dropped to 72.2, our foreign trade commodity prices all fell, our imports dropped more in price than our exports, and our export price index for most years was higher than our import price index.

Our foreign trade developments vigorously speeded up the growth of our domestic industrial and agricultural production, effectively ensured the implementation of our policy of opening up to the outside world, and provided the essential factors for other forms of foreign economic contacts. Although we have achieved enormous foreign trade successes and an encouraging foreign

trade growth momentum in recent years, a concrete analysis of the relevant data leaves us with an issue that must arouse serious attention, namely that the macroeconomic efficiency of our foreign trade has decreased. As to exports, this can be seen in that our export trade turnover has grown out of proportion to and far more than our export earnings. From 1978 to 1981, our export trade earnings index clearly rose more than our export trade turnover index, with our export trade earnings increasing 114 percent while our export trade turnover increased only 34 percent, and our export commodity prices increased steadily, with our export commodity price index rising 38.8 percent. But from 1981 to 1987, our export trade index rose 125 percent, while our export earnings index rose only 66.1 percent and our export price index fell 26.2 percent. Many factors were involved in causing our export commodity prices to drop and our export turnover to grow out of proportion to our export earnings. While these certainly include external ones, such as the drop in international market prices and the appreciation of the U.S. dollar, internal factors, such as our loss of macroeconomic control, bullish approach to foreign trade, competition among ourselves, under-selling each other, and even "water freight" shocks, must also be considered to be significant causes of these problems. As to imports, the decrease in the macroeconomic efficiency of our foreign trade can be seen in our inability to effectively bring the impact of imports on the growth of the national economy into full play, and in the decrease in the marginal utility of the money which we spend on imports. This can be seen particularly in the following areas: 1) Although our import commodity mix has improved somewhat and our percentage of capital goods imports has increased somewhat in recent years, we are still spending a lot of money to import consumer goods, and especially durable ones. For example, as to our automobile imports alone, even though our collective purchasing power was strictly controlled in 1988, the \$1.05-billion that we spent on all automobile imports, added to the \$390-million that we spent on other parts imports, would have been enough to build a plant which could make 300,000 cars a year. We imported 70,500 cars worth \$504 million in 1988, or 25.25 percent more than in 1987. Our huge imports of durable consumer goods have overstimulated domestic demand, added to our already too large domestic consumption, and had a certain negative impact on the further growth of our national industry. 2) Our capital goods imports include too many ordinary ones and not enough advanced technology and equipment. Our technology imports include too many complete sets of equipment and production assembly lines and too little soft technology, such as patents and patented technology. Moreover, too much duplicate importing and much production equipment remaining idle long after it is imported or operating under capacity, have played critical roles in keeping the economic efficiency of imports from being brought into full play. 3) As to our raw materials imports, we spend too much money on semifinished products and parts, the products that we make with imported equipment have too low a level of nationalization, much equipment can

basically not be put into normal operation without imported parts, and imported equipment relies too much on imported raw materials and parts. The decrease in the macroeconomic efficiency of our foreign trade can also be seen in the increase in our national financial burdens. Many factors, such as dual-track prices, have had the effect in recent years of raising our foreign trade costs, increasing the state's financial burden in subsidizing foreign trade to billions of yuan a year, producing the strange phenomenon of both export and import losses, and pushing the state's financial burden in supporting foreign trade growth beyond bearable limits.

In summary, although we have achieved encouraging successes and certain heartening trends have appeared in our foreign trade growth in recent years, certain critical issues still exist. In particular, the drop in the macroeconomic efficiency of our foreign trade is cause for concern and deserves close attention.

III

Our foreign trade has actually developed at a very fast pace in recent years. From 1981 to 1987, our foreign trade turnover actually grew at an average rate of 15.3 percent a year, which is far higher than the average rate of 7.6 percent that was proposed by MOFERT, higher than the growth rate for the previous 30 years, and higher even than the most optimistic estimates that came out of our discussions on economic development. Projecting from this rate, our foreign trade turnover would top \$600 billion by the end of the century and (taking 1981 as the base period) be 16 times 1981's base. As this is simply unimaginable based on our current level of productive forces and existing international circumstances, I think that our preceding stage of high-speed foreign trade growth must have been caused by exceptional and particular conditions. We will undoubtedly be unable to, nor should we, maintain such a high-speed development trend in the next decade or so.

On one hand, there are many factors, including both international and domestic ones, that will keep our foreign trade from continuing to develop at such a fast pace. In relation to international factors, although the economic restructuring throughout the world will present opportunities for our foreign trade to grow, I think that they will coexist with the following even greater challenges: 1) The world economy has entered a long-range phase of slower growth. After the world economic recovery that began in 1983 peaked in 1984, it began to slow in 1985 when the actual output value growth rates of the major industrialized countries began to drop steadily. As this situation has not yet improved, it is predicted that a new worldwide economic recession will occur in the 1990's. 2) As the world economic and industrial restructuring is extremely limited in scope, international market competition is still very sharp, and no country is likely to surrender its traditional markets submissively. We will have to rely on our own strength to compete and break into markets in order to increase our exports. So-called market concession basically does not

exist in the real economic life of today's world. 3) Trade protectionism is going to continue. As the third wave of trade protectionism that began in the early 1980's has continued without abatement for some years, and although the Uruguay round of multilateral trade talks may restrict it somewhat, the prospects its elimination are not good because of various economic and political factors in all countries. While the major manifestation of the third wave of trade protectionism is nontariff barriers, the impact of too many restrictions can be seen even more so in the area of labor-intensive product trade. In developing and increasing our labor-intensive product exports, we will be the first to be affected by, and are bound to suffer from, trade protectionism. As to domestic factors, although our domestic economic reforms and policy of opening up to the outside world have provided the prerequisites for developing our foreign trade, the dual-track management and pricing systems that we are using in our system reforms, as well as the economic and industrial restructuring that we are carrying out, will both have a profound impact on our foreign trade development. The present low level of our productive forces and the poor international competitiveness of our products are basic factors that will restrict further development of our foreign trade. Other major factors that will also undoubtedly restrict our foreign trade growth are the steady increases in our foreign trade costs, the limited financial resources that available to the state to support foreign trade growth, the ceiling that was set on central financial subsidies to foreign trade, and the temporary inability to subsidize foreign trade growth with any substantial local finances since the budget-cutting contract management reforms went into effect, and in particular, the impossibility of significant changes in foreign exchange rates since domestic prices have not been rationalized with foreign ones.

On the other hand, we should not maintain such a high pace of foreign trade development in the next decade or so. A critically wrong tendency to strive for speed by accenting it more than efficiency has long existed in the guiding ideology of our economic construction. Although this harmful trend has been criticized repeatedly by many scholars and theoreticians and aroused much attention among the departments concerned in recent years, it has certainly not been contained in actual economic work, even to the point of worsening to a certain extent. In recent years, our economy has been overheated and developed at too fast a pace, and our manufacturing industries have developed too fast while our basic industries have fallen seriously behind in areas such as raw materials and power, causing overall domestic shortages of raw materials and power supplies. Our traditional way of setting imports according to our national economic development and exports according to import needs, has made the growth of our national economy more dependent on foreign trade. On one hand, our overheated economy and too numerous new construction projects have stimulated the demand for imported raw materials, forcing us to import more foreign technology, equipment, and even spare parts. On

the other hand, we have greatly increased our exports to pay for these increasingly expanding imports. Moreover, our increased exports and over-accelerated growth of exports have made our national economy grow even faster, and a bewildering cycle has formed, in which imports and exports spur each other on repeatedly. We must resolve this dilemma as quickly as possible, set and control our pace of national economic development realistically, control our pace of foreign trade development appropriately, and harmonize the relations between them so that they can both develop soundly and stably.

In view of this, I think that although we need to maintain a certain pace of development, we certainly must change our guiding ideology from unilaterally striving for speed and going in for grandiose projects, to setting an appropriate pace for our foreign trade development, setting feasible and achievable objectives for the last decade of the 20th century, handling the relations between development pace and economic efficiency correctly, and focusing our energies on improving the economic efficiency of our foreign trade. Concerning our exports, we must work hard to resolve the relationship between the increase in our export turnover and export earnings, enhance our macroeconomic control and coordination, improve the quality of our export commodities, strive to earn more foreign exchange from less exports, and try to make our export earnings grow faster than our export turnover. Regarding our imports, we must strictly control consumer goods imports, import less complete sets of equipment, import more technology and key equipment, and try in every possible way to control our import growth rate to ease the pressure on our export earnings.

Foreign Trade Surplus Reported for First Quarter

OW1104175790 Beijing XINHUA in English
1324 GMT 11 Apr 90

[Text] Beijing, April 11 (XINHUA)—Growing exports and declining imports in the first quarter of this year have improved China's foreign trade balance and brought about an actual surplus of more than 1.6 billion U.S. dollars for the country.

According to the latest customs statistics, China's imports and exports from January to March went down two percent over the same period last year to total 20.76 billion U.S. dollars.

The figure suggests a favorable balance of more than 800 million U.S. dollars for China in the period, with its exports at 10.79 billion U.S. dollars and imports at 9.97 billion U.S. dollars.

If goods that do not involve foreign exchange earnings or payments are excluded from the figure, China's actual exports hit 8.95 billion U.S. dollars-worth in the three months, up by 13.4 percent, while its imports went down 20.2 percent to reach 7.32 billion U.S. dollars-worth.

Although China's exports which earned foreign exchange in January remained at the level of the same 1989 period, the figure began to pick up in February, which reported a growth of 10.3 percent, and soared 24.5 percent in March.

Imports that involved foreign exchange payment, however, went on a steady decline in the period, as compared with the same period last year. A drop of 18.3 percent was reported in January, 11.5 percent in February and 27.8 percent in March.

Goods whose export value in the three months exceeded 100 million U.S. dollars each included aquatic products, grain, vegetables, canned food, coal, crude and refined oil, medical products, cotton fabric, polyester-cotton cloth, silk fabric, garments and shoes.

Of these 13 commodities, exports of grain, canned food, vegetables and silk fabric dropped slightly, while the exports of the other nine went up by varying rates.

Only six commodities recorded an import value of over 100 million U.S. dollars each in the period. Imports of grain, refined oil and metal-processing machine tools went up over the same quarter last year, while imports of fertilizer, steel products and automobiles all went down.

The customs statistics also suggest success for China's efforts to control imports of luxury consumer goods and general machinery and electronic products.

Major decreases were reported in the period for imports of cigarettes, wool, refrigerators, air-conditioners, Xerox machines, television sets, washing machines, motorcycles and cars.

Advantages of Sino-Foreign Joint Enterprises

900H0425B Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 4, 15 Jan 90
pp 14-15

[By Lin Ch'i-hui (2651 0366 6540)]

[Text] In November 1989, the Chinese Association for International Economic Cooperation convened a meeting in Beijing to study and discuss the use of foreign capital by China. Many specialists presented opinions and suggestions on how to use shareholding to set up Sino-foreign joint enterprises. They noted that issuing shares to raise capital for setting up enterprises was an effective method widely used internationally, one used by the vast majority of transnational companies. It has been an effective means of developing direct foreign commercial investment to make up for the shortage of capital during the period of improvement and rectification, and the use of foreign commercial investment deserves to be tried and tested afterwards to see if it is practical for speeding up modernization. The discussion by the specialists and this writer's suggestions are summed as follows.

The Advantages of Sino-Foreign Shareholding Enterprises

The international market for capital is divided into stockmarkets and credit markets. The stockmarkets are divided into share markets and bond markets. Using the international stockmarkets for capital to speed up China's modernization is a definite possibility. According to the specialists, a Sino-foreign shareholding enterprise system would have the following advantages:

1. Shares issued by Sino-foreign shareholding enterprises are nonexpiring negotiable share certificates indicating that the shareholder owns a portion of the enterprise's assets. As limited liability shareholders, whose liability to the enterprise is limited to the amount of share capital they have paid, they have the right to profit earnings from their invested shares and other appropriate shareholder rights. The enterprises only issue dividends and pay interest on the basis of their profits. They do not return the capital that is owed within a certain time. In this way, the enterprises can use these foreign funds for an extended period of time without forming any debt. Faced with the extensive controls that China has on incurring foreign debt, by using this method, more foreign capital can be utilized, funds can be raised faster, and it can be done with little risk.

2. The methods of raising funds for Sino-foreign shareholding enterprises are rather flexible. Shares can be issued domestically or abroad in Chinese currency, and they can be issued in foreign currency. They can be held by individual shareholders, and they can be held by unit shareholders. Common shares can be issued, as can special shares (preferred shares). The shares can be bought and sold on both domestic and foreign markets. In this way, dispersed capital can be concentrated for setting up large-scale enterprises or expanding the production of enterprises. For several years now, a number of foreign investors have been willing to use this common international method to invest in China. They have come one after the other inquiring about it. Many overseas Chinese have also expressed a willingness to buy shares as a way of contributing to the building of their motherland. China still has not formulated laws governing foreign companies for the country as a whole. The provisions of the "Guangdong Provincial Economic Regulations on Special Zone Foreign Companies" concerning Sino-foreign limited liability companies mention that the issuing parties are to subscribe to no less than 25 percent of the collected shares and that the remainder can be solicited publicly. In this way, the Chinese side can use a relatively small amount of funds to attract a relatively large amount of foreign funds.

3. Sino-foreign shareholding enterprises not only can enable the state to increase tax revenue, the state can also implement readjustments to the industrial structure by means of the shareholding system. As for industries to be developed on a priority basis, by retaining the greater portion of the shares and thus obtaining the controlling share interest in an enterprise, the Chinese side could

invest more in that enterprise and speed up its development according to industry policy.

4. Generally speaking, in setting up Sino-foreign joint ventures and contractual joint ventures, it is difficult to expect foreign commercial interests to furnish both the funds and the advanced technology and management experience. Setting up Sino-foreign shareholding enterprises essentially takes care of the funds problem. When the funds are there, suitable and appropriate technology and equipment can be introduced from other countries and other enterprises. In addition, only essential equipment need be introduced—equipment that is compatible with that now being used in the country. In this way, more things can be done using relatively smaller amounts of foreign exchange to carry out technical renovation of older enterprises.

5. The property rights relationship and limits on managerial authority for Sino-foreign shareholding enterprises are rather clear cut. Generally, enterprise shareholders do not act as enterprise managers. The chairman of the board and those in charge of management of the enterprise's production operations implement the fundamental operating decisions made at shareholders general meetings. The shareholder's property and enterprise property are separate. The shareholder has no liability for the debts of the enterprise. If the enterprise happens to go bankrupt, only the assets of the enterprise itself are used to repay the debts. The financial management of the enterprise is public. At the end of each fiscal year, it must publicize the enterprise annual report, the board of directors annual report, and the status of the enterprise assets and profits. This helps supervise enterprise management and ensures that they are doing a good job.

The Main Differences With Joint Ventures

A Sino-foreign joint venture is a shareowning-type of enterprise the same as a Sino-foreign shareholding enterprise. Both receive direct foreign commercial investment. Many of their aspects are similar. For example, they both must have approval from appropriate Chinese government departments to obtain status as a Chinese legal entity. The investments by the Chinese and foreign investors and production operations must conform to China's industrial policies, and the enterprise profits are shared by both the Chinese and foreign investors. As far as share investments and profit sharing are concerned, the two systems are practically the same. However, they also have a number of differences. The main ones are as follows.

1. The form of organization is not the same. Sino-foreign joint ventures are limited liability companies set up with the approval of the Chinese government within the borders of China according to Chinese laws governing them. They are jointly operated by Chinese and foreign investors and the risks are jointly assumed. The amount of funds invested in this type of enterprise by Chinese and foreign investors is decided through negotiation. The shares are computed according to the amount

invested, and the profits divided according to the proportion of shares held. However, the number of shareholders are generally small. No share certificates are issued. Its shares cannot be freely bought and sold on the market. If a shareholder wants to transfer his shares, he must obtain agreement from the other participants. By contrast, there are a large number of shareholders in a Sino-foreign shareholding enterprise, shareholders can be publicly enlisted, and the share certificates can be freely traded on the stock market.

2. The organizational structure is not the same. The entity having the highest authority in a Sino-foreign joint venture is the board of directors. It decides all the major issues pertaining to the enterprises. The assignment of directors is negotiated by the various parties to the venture with reference to the proportion of their investment, and it is clearly stipulated that the chairman and deputy chairman be appointed separately, one from among the Chinese investors and one from among the foreign investors. The body having the highest authority in a Sino-foreign shareholding enterprise is the shareholders general meeting. All the major issues pertaining to the enterprise are decided at general meetings of the shareholders. The board of directors established by a shareholders general meeting is only an executive body for making managerial and operational decisions for the enterprise. Its main function is to implement resolutions of the shareholders general meetings, manage and operate the enterprise, convene shareholder general meetings, hire high-level personnel, decide enterprise production operations, and distribute share interest and dividends. The chairman, deputy chairman, and the board are elected by a shareholders meeting or decided through negotiations. The chairman of the board is not necessarily a shareholder. A nonshareholder can be selected chairman if this is decided by a special meeting of the shareholders general meeting. When major issues are voted upon at a shareholders general meeting, each share is worth one vote. Shareholders holding the most shares can hold the controlling interest.

3. The methods of providing funds are not the same. According to legal provisions governing Sino-foreign joint ventures, they can use currency as funds and they can use construction materials, factory buildings, machinery and equipment, or other materials, industrial property rights, special-use technology, and land-use rights for fixing the price of the funds. The price of construction materials, machinery and equipment, as well as industrial property rights and special-use technology are determined by both parties through fair and honorable negotiations or a third party, agreed upon by the participants in the joint venture, decides. By contrast, the method of providing funds for Sino-foreign shareholding enterprises is to offer to buy the share certificates. The face value of the certificates can be in renminbi or other currency. The monetary amount of each share is the same. Those offering to buy hand over or mail the share registration forms and share payment to the company or to the financial body entrusted by the

company to issue the shares. The company then hands over or mails the share certificates to the shareholder.

Suggestions For Sino-Foreign Shareholding Enterprises

1. Since shareholders cannot require the enterprise to take back their shares, if they have an urgent need for funds, they can take the share certificates to a stock market and transfer ownership. For this reason, if we are to set up Sino-foreign shareholding enterprises, we have to gradually create a stock market that conforms to international practices to allow shareholders to do their buying and selling domestically. Only in this way can we truly bring into play the flexibility of share certificates to raise funds. Of course, if we are to set up a stock market to allow share certificates to be bought and sold, we have to have transactions. Shareholding enterprises would have to have already been developed to a certain extent. Under circumstances where conditions still do not exist anywhere in the country for establishing a stock market, we could first select a suitable special economic zone to set one up as an experiment, and once we gained experience, we could expand to other suitable cities. Experimentally, we could also first try issuing share certificates without using a market.

2. Setting up Sino-foreign shareholding enterprises is rather complicated. Rules and regulations need to be formulated. We can make use of effective foreign experience and combine it with Chinese practices to formulate Chinese rules and regulations for shareholding enterprises. For example, laws for Sino-foreign shareholding enterprises, for the certificates, and for a stock exchange must to a degree be established beforehand, but we definitely cannot wait for these laws to be completely finished before we put these things into practice. We can experiment at the same time we are formulating the rules and regulations. China is a country that exercises control over foreign exchange. If we are to set up Sino-foreign shareholding enterprises, we have to adapt our foreign exchange controls to them so that we can both control the extent to which share certificates in foreign exchange are issued and enable shareholders to take their remittances for dividends and interests out of the country without delay. As for taxation on shareholders' profits and other such questions, they will also have to be explained in the rules and regulations.

3. A body of talent thoroughly familiar with business operations will have to be trained to set up Sino-foreign shareholding enterprises. They not only must know foreign languages, they must also be thoroughly familiar with the specialized knowledge pertaining to international securities trading and international finance so that they can correctly handle the various aspects of raising funds through share transactions in accordance with international practices.

4. It will be necessary to select a suitable enterprise or project to carry out this experiment. The enterprise (or project) selected to have its shares traded on the market must be one which needs foreign exchange funds and which has relatively good prospects for growth. It also must be able to earn foreign exchange and be profitable. Its

operations and management must be sound, and its financial data for the past three years must be complete. Enterprises meeting these criteria, with approval, could, prior to a domestic stock market being set up, have their shares traded on the Hong Kong market or on other overseas markets. At present, some of the special zones are in the process of carrying out this type of experiment.

Official Explains Draft Amendment to Joint Ventures Law

OW3103103890 Beijing XINHUA in English
0930 GMT 31 Mar 90

[Text] Beijing, March 31 (XINHUA)—The draft amendment to the Chinese-Foreign Equity Joint Ventures Law is aimed at creating a sound environment for foreign investment in China, law expert Gu Ming said here today.

Gu, vice chairman of the Law Committee of the National People's Congress (NPC) and president of the Chinese Society of Economic Law, made the remark in a panel discussion on the draft amendment.

Explaining reasons for the amendment to the joint ventures law which was promulgated ten years ago, Gu said that the law, while playing a positive role in promoting Sino-foreign economic cooperation, falls short of China's objectives.

Statistics show that joint ventures with Hong Kong and Macao investment account for 81 percent of all the Chinese-foreign joint ventures in China, and foreign investment averages only 400,000 to 500,000 U.S. dollars per firm.

Of the more than 10,000 joint ventures that have gone into operation, those with advanced technology account for only four percent, and those able to export their products account for 18 percent, Gu added.

He said if the amendment is approved by the NPC, there will not be the problem of Chinese economic activities being dominated by foreigners.

According to the amendment, the state shall not nationalize or requisition equity joint ventures under normal circumstances. Chinese or foreigners may be chosen to be chairman and vice chairman of the Board of Directors in the joint ventures and the issue of operation periods of joint ventures may be handled differently.

Gu explained that these stipulations are in accord with international practice and will help eliminate misgivings among foreign investors.

If foreigners are chosen as chairmen of joint ventures, Chinese economic activities will not come under the foreigners' control, because all the joint ventures in China are Chinese legal persons under the supervision of Chinese laws and administrative organs, Gu said.

If foreigners are chosen as chairmen, it may be easier for the joint ventures to expand export and promote technological exchanges in the international market, he added.

He stressed that the amendment, contrary to the assertion that it represents a compromise by China to foreign "sanctions" after the quelling of the antigovernment rebellion in Beijing last June, represents the need to open China still wider to the outside world.

It is the vast market in China and favorable terms offered them that draws foreign investors to China, he added. For instance, workers' average wage in China comes to only three percent of that in the United States. The income tax rate for a joint venture in China ranges from 10 to 33 percent plus a two-year holiday in some cases, whereas the rate is 46 percent in the United States and 50 percent in the United Kingdom.

News Brief on Austrian Investment

OW0904113790 Beijing XINHUA in English
0249 GMT 9 Apr 90

[Text] Beijing, April 9 (XINHUA) Austria has provided China with a low-interest loan of 71.93 million Austrian schillings (about 5.95 million U.S. dollars) for the country's auto industry.

Beihai Storage Battery Plant, in southern Guangxi Zhuang Autonomous Region, will use the loan to produce 250,000 low-antimony auto batteries each year, half for export.

Tourism in Beijing Recovering

OW1104114190 Beijing XINHUA in English
0811 GMT 11 Apr 90

[Text] Beijing, April 11 (XINHUA)—Beijing received 80,000 overseas tourists in March, the highest monthly figure since last June.

Some 49,000 were foreign tourists. The rest were from Hong Kong, Taiwan and Macao.

Tourism has been going up in Beijing since the beginning of the year. About 170,000 overseas tourists visited the capital in the first quarter, 20.6 per cent more than projected.

An official of the local tourism administration said his bureau earned 91 million U.S. dollars during the quarter.

The official predicts the boom will continue with more than 200,000 overseas tourists, athletes and officials expected for the 11th Asian Games to be held here in September.

Beijing Jeep Company Reports Good Business

OW1004222990 Beijing XINHUA in English
1603 GMT 10 Apr 90

[Text] Beijing, April 10 (XINHUA)—The Beijing Jeep Co. Ltd., a Sino-U.S. joint venture, produced 10,247

jeeps in the first three months of this year, 9.3 percent up compared to the same period last year.

All the vehicles have been sold.

By the end of March this year the old type of light cross country jeeps had been upgraded to make them safer, lighter and faster, as well as more economical on fuel.

Set up in 1984, the joint venture has produced 159,000 vehicles in the past six years and made profits of 415 million yuan.

Its annual production is expected to reach 40,000 vehicles this year.

Foreign Trade Companies Resist Closure by Guangdong

900H0425A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 4, 15 Jan 90
pp 14-15

[By Kung Ch'ang (0361 1603)]

[Text] Despite repeated injunctions by Chinese authorities for a group of foreign trade companies to make up their minds to close or merge because they are not meeting the present needs of foreign trade developments, because they were not properly set up, and because they have had a number of problems, it appears that the work to accomplish this is meeting with all manner of resistance in various places.

Guangdong has 1,500 companies with authority to engage in foreign trade, the largest number in the country, one quarter of them all. It is said that at this meeting a responsible person at the province level spoke of wanting to cut out a half of them. After the meeting many trade committee chairmen from the localities and cities wanted to talk to him about what his plans were for the personnel belonging to the companies to be closed.

After some of the trade committees from the province and the cities initially decided to cut back on the companies, provincial and city responsible persons wondered if maybe they were closing too many and thought that they should see how many the other provinces would close. Everyone wanted fewer of them closed.

The reason the closings and the mergers are so difficult is directly related to local interests. Most of the foreign trade companies to be closed or merged are attached to government departments. Local governments obtain foreign exchange from these companies. Some of them have, in effect, become the "petty cash funds" for the local governments. This is why there is sure to be resistance to the closings and mergers.

However, irrespective of how strong the resistance might be, the central authorities are serious in their determination to clean up and rectify these companies in order to improve the foreign trade environment and order and to make the process a major component in deepening the

reform of the foreign trade system. The relevant departments are deciding this month which companies will continue, which will be closed, and which will be merged. Can they in the end carry this out? We will have to wait and see.

Guangdong To Probe Hong Kong Trade Partner

HK1104015690 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 11 Apr 90 p 1

[By Cheung Lai-kuen]

[Text] Officials from Guangdong province and Guangzhou municipality have arrived in Hong Kong to investigate the bankruptcy of a trading company under Yue Xiu Enterprises, the commercial arm of Guangzhou's municipal government.

The trading firm, Texxon Industries Ltd., is believed to be the first company either backed by China or with a Chinese majority partner to file for bankruptcy in Hong Kong.

While it is not the first failure among the thousands of China-backed companies in Hong Kong, problems are normally handled "quietly,"—usually with a fresh injection of cash from China.

However, the Guangzhou municipality is also short of capital amid China's austerity programme.

Municipally-backed Yue Xiu was set up in Hong Kong to carry out business that included property development, financing and trading.

The firm and a Hong Kong partner had set up Texxon to trade with Taiwan.

The company filed for bankruptcy in Hong Kong on March 9 after failing to repay about HK\$320 million in loans from banks here.

The guarantor of most of the loans to Texxon, according to reliable sources, was Yue Xiu Finance Co Ltd., a wholly-owned subsidiary of the group.

Yue Xiu has hired investigators to recover money from defaulters in Taiwan, sources said yesterday.

The bankruptcy has left open the question of whether Yue Xiu chairman Mr. Liang Shangli would have to retire early, one source close to the Yue Xiu management said.

The 68-year-old Mr. Liang, the former vice-mayor of Guangzhou municipality, was appointed Yue Xiu chairman when the company was set up in Hong Kong.

Sources stressed Mr. Liang was not seen as being involved in any of the monetary issues.

Mr. Liang was not available for comment yesterday. But a senior staff member confirmed the bankruptcy, saying the company directors had decided it was the best solution.

The failure is expected to have strong implications for other China-backed companies.

In recent years, banks had been flexible about loans to the companies, believing them unlikely to fail as China was behind them. There were predictions that Hong Kong banks would adopt a more cautious attitude towards approving loans to the Chinese companies, slowing development.

A member of the Bank of China group, Nanyang Commercial Bank, has filed action in court.

But most of the Hong Kong creditors were foreign banks, including Sanwa, Sumitomo, Bank of Credit and Commerce, Hong Kong Bank and Kincheng Banking Corp.

Guangxi Fulfills Foreign Exchange Earnings Target

900H0401A Beijing GUOJI SHANGBAO in Chinese 3 Feb 90 p 1

[Article by reporter Li Changxun (2621 7022 6061): "Adopting a Biased Policy and Solving the Fund Problems—Guangxi Overfulfilled 1989 Export Plan"]

[Text] GUOJI SHANGBAO Nanning News—Guangxi's foreign trade encountered unprecedented difficulties in 1989. The year was the most difficult for businesses in the decade since reform and opening up. Credit funds were very tight, product prices soared, and there were power and means of transportation shortages. Under the circumstances, the economic and trade departments took prompt and effective measures to solve the many problems and tried every possible means to increase exports. The region as a whole exported \$583.61 million worth of goods, a 100.02 percent completion of the central government's plan, and surpassed the previous year's actual export by 7.4 percent. They also surpassed their self-operated export responsibility contract with the central government by 13.5 percent. Specifically, the "three kinds of wholly and partially foreign-owned" enterprises were responsible for \$33.57 million worth of exports, a 305 percent fulfillment of the year's plan, and surpassed the previous year's achievement by 137 percent. The foreign-funded enterprises are beginning to attain export economic efficiency. The export of cereals, oils, and foodstuffs, native products, tea, livestock, metals and minerals, silk, nonferrous metal, metalwork as well as the Guangxi Autonomous Region Import-export Trade Company managed to overfulfill their normal export targets.

The most prominent problem Guangxi's foreign export and foreign exchange earning tasks faced last year was the shortage of funds. The region's People's Bank and the Nanning branch of Bank of China decided to implement a biased foreign export purchase fund policy. Despite the serious fund shortage, they transferred and squeezed more than 85 million yuan for use on export good purchases. Early last year, in an effort to solve the export good purchase fund problem, the region's Committee on

Foreign Economic Relations and Trade formulated a 12-point measure and launched a "double increase and double economy" campaign within the foreign trade enterprises and encouraged them to tap potential fund sources. For the year, the region's foreign trade system raised more than 100 million yuan among themselves, which helped ease the shortage of purchase funds. Since July, the average export has exceeded \$60 million a month.

Henan Official Calls for Increased Foreign Trade

90CE0033B Beijing GUOJI SHANGBAO in Chinese
20 Feb 90 p 1

[Article by Ma Wenkuan (7456 2429 1401) and Mu Rongguo (4476 2837 0948): "Henan Province Vice Governor Qin Kcai Proposes New Measures To Develop Henan's Foreign Economic Relations and Trade During the Period of Improving the Economic Environment and Rectifying the Economic Order"]

[Text] How can foreign economic relations and trade be developed during the period of improving the economic environment and rectifying the economic order? Qin Kcai [4440 4430 2088], vice governor of Henan Province, proposed at the 1990 Working Conference on Henan Foreign Economic Relations and Trade which just ended, that Henan's foreign economic relations and trade priorities during the period of improving the economic environment and rectifying the economic order, will be to conscientiously implement the principles and policies on overall foreign economic relations and trade that were set forth by the Party Central Committee and the State Council, actively promote improvement of the economic environment, rectification of the economic order, and deepening of reform, revise tactics, surmount difficulties and, while ensuring steady growth, emphasize laying a good foundation and building up stamina to push Henan's foreign economic relations and trade to new heights during the period of improving the economic environment and rectifying the economic order. He continued approximately as follows: During the three years of improving the economic environment and rectifying the economic order, 1990 will be the key year. Although 1990 will be the final assault stage and also the most difficult period for foreign trade contracting during the three years of improving the economic environment and rectifying the economic order, Henan's foreign economic relations and trade must develop steadily and absolutely not be allowed to sag or decline, despite the many difficulties. Foreign economic relations and trade departments at all levels throughout Henan will have to summon up their energy, brace up their confidence, and have the courage to develop, in order to ensure the completion of all of foreign economic relations and trade tasks during the 1990's. Moreover, they will have to lay a solid foundation and build up stamina to develop Henan's foreign economic relations and trade.

1. Firm steps will be taken to improve the quality of Henan's export merchandise, enhance its competitive capability and prestige on the international market, and

control its quality at the following four levels: substandard goods manufactured by production enterprises will not be allowed to leave the factory; substandard products produced by foreign trade enterprises will not be procured; substandard merchandise discovered by commercial inspection departments will not be issued commercial inspection certificates of quality; transport departments will load and unload merchandise carefully. Thus, checks will be made at all levels to ensure that there is no opportunity for substandard merchandise to be exploited to anyone's advantage.

2. Vigorous steps will continue to be taken to develop Henan's export merchandise and restructure and optimize our industry and export product mix. Our export merchandise will be developed to have higher added value, be more multifunctional, and better satisfy consumers' needs. Full use will be made of Henan's advantages of rich manpower resources and good electronics and textile industry bases, to vigorously develop a series of textiles, labor-intensive products, highly-processed products, and foreign-exchange-earning agricultural exports consisting mostly of electronic goods and clothing. Henan will be guided by the international market; we can start by strengthening our system of production, speeding up our development of new products, and ensuring that a higher percentage of our existing high-grade merchandise is exported. Efforts will be made to export \$90 million of electronics goods from Henan's ports in 1990.

3. Active steps will be taken to develop international markets and set up international market sales networks. Faced with the complex and changeable conditions and sharp competition on the international market, Henan will take full advantage of the role of our enterprises as "windows" to the outside world, gather extensive and timely information, analyze the peculiarities of various markets to be dealt with individually, and develop international markets everywhere.

4. The investment climate will be further improved, and vigorous efforts will be made to run our existing foreign trade enterprises well. Along with actively striving to obtain loans from foreign governments and doing what we can to attract more direct foreign investment, priority will be given to improving our investment climate and running our existing foreign trade enterprises well.

5. Full use will be made of Henan's rich manpower resources and our technical advantages in industries, such as highway and bridge-building, irrigation, power, textiles, and construction, to actively develop project contracting and cooperative labor markets and expand the scope of our overseas economic and technical cooperation.

6. Various ways and means will be used to better train qualified professionals for foreign economic relations and trade tasks, in order to adapt to the international market conditions of increasingly sharper competition.

I would like to emphasize that foreign economic relations and trade work is a kind of systems engineering that has

many links, makes high demands, and involves many aspects. It will not be enough to rely on foreign economic relations and trade departments alone to ensure the completion of all of the above foreign economic relations and trade tasks. Rather, all trades, industries, and concerned departments will have to fight in close coordination, pool their efforts, bring into full play the advantages of a mass attack, and work together to do a good job of foreign economic relations and trade work.

Qinghai Exports Earn \$26.1 Million

*HK0904022590 Xining Qinghai Provincial Service
in Mandarin 2300 GMT 6 Apr 90*

[Text] In the first quarter of this year, Qinghai earned \$26.1 million in foreign exchange through export trade, and fulfilled 44.62 percent of its annual foreign exchange-earning quota, a 4.8-percent increase over the corresponding period of last year.

Since the beginning of this year, Qinghai's foreign economic relations and trade department has mobilized the enthusiasm of staff and workers, fully implemented existing state foreign trade policies, organized readily marketable products, pushed ahead with the "double increase, double economy" campaign, made proper and flexible use of funds, and promoted the development of export-oriented enterprises.

Shanghai Exports Up in First Quarter

*OW0604234690 Beijing XINHUA in English
1458 GMT 6 Apr 90*

[Text] Shanghai, April 6 (XINHUA)—Shanghai's exports totalled 1.133 billion U.S. dollars in the first quarter of this year, an 8.1 percent increase over the same period last year.

Local experts predict continued export growth this year.

As a result of efforts to improve management and readjust export structure by Shanghai foreign trade departments, the proportion of heavy industrial products exported increased from 21 percent last year to 27 percent this year in January and February.

Shanghai's foreign funded enterprises had exports valued at 23 million U.S. dollars in the first three months this year, 350 percent more than in the same period last year.

Hong Kong Trade Representative Urges Cooperation

*900H0483B Shanghai JIEFANG RIBAO in Chinese
6 Feb 90 p 2*

[Article by Yu Yuanming (0205 6678 2494): "'Year of the Horse' Message From Liang Guancheng, Head Representative at Shanghai Office of Hong Kong Trade Development Council: Shanghai and Hong Kong Should Cooperate More Closely"]

[Text] Mr. Liang Guancheng's [2733 6034 6134] office is located in the southwest corner of the Lianyi Building,

and the Chinese and foreign clients who come there flow in an endless stream, like the cars outside the window on Yanan Road. Mr. Liang has to attend to clients while continuing to talk with me.

"Let's start by talking about those clients who just left," he said. "Two are representatives of a Beijing-Hong Kong joint venture fast food restaurant from Beijing, and they want to look for business development opportunities and partners in Shanghai. That lady is the assistant manager of a Shanghai enterprise, and we act as a go-between for their cooperation."

Mr. Liang Guancheng, 30, is the head representative of the Shanghai office of the Hong Kong Trade Development Council. The Hong Kong Trade Development Council is a semiofficial organization, the purpose of which is to promote the development of the port of Hong Kong's international trade, and at the same time help industrial enterprises in the interior expand exports. One of the specific jobs of the Shanghai office is to act as a go-between between Shanghai and Hong Kong enterprises, and provide them with advice; a second job is to hold exhibitions in both cities, and arrange for parties from both sides to participate in these exhibitions and do business face-to-face. Last year, the Hong Kong Trade Development Council held 20 special international exhibitions of fashions, toys, watches, electronic products and other items in Hong Kong; the electronic products exhibit alone was attended by nearly 20,000 customers from various nations, and sales during four days amounted to HK\$800 million.

"Shanghai should attach more importance to developing economic contacts with Hong Kong. If Shanghai makes full use of Hong Kong, it can greatly advance its own foreign trade." This was the idea repeatedly stressed by Mr. Liang.

"With regard to the international exhibitions held in Hong Kong last year, Shanghai participated in the fashion exhibition at the beginning of the year, and negotiated business amounting to \$8 million to export. This was followed by the clock and watch exhibition; the Ministry of Light Industry formed a delegation which did \$8 million worth of business. Just two Shanghai watch factories participated and did \$2 million worth of business. Last year and the year before last, the volume of trade between Shanghai and Hong Kong accounted for 17 percent and 18 percent, respectively, of Shanghai's total foreign trade volume. Unfortunately, for various reasons, Shanghai did not send a delegation to Hong Kong for the electronics exhibition in October of last year. However, two Jiangsu radio factories participated in the exhibition and did \$1.2 million worth of business."

Mr. Liang said: "I asked the director of a Jiangsu radio factory why they wanted to do business with Hong Kong. He replied that there were three reasons. First, the United States and European markets had many safety standards with regard to electronics products, which they were not familiar with, and they did not have parts and accessories to make improvements; Hong Kong businesses could solve this

problem. Second, domestic models did not reach the standards, while Hong Kong's models were technologically advanced, and its products were attractive and stylish. Third, Hong Kong's communications and transportation were more convenient, so foreign firms hope that Hong Kong firms will act on their behalf."

"I think that these factors merit Shanghai's consideration. Hong Kong's total annual volume of imports and exports is now over \$140 billion, having increased about 30 percent annually during the past four years, making Hong Kong a world trade base worth of the name. Shanghai has abundant production capacity, and if Shanghai's source of goods is combined with Hong Kong's convenient and flexible means of contact with foreign countries, as well as with Hong Kong firms' understanding of the various requirements of the international market, a lot can be accomplished."

Mr. Liang explained: "We receive requests for "finding partners" from an average of 120 enterprises per month. Most of these are Shanghai enterprises seeking Hong Kong cooperation. We do everything we can to provide help in response to the various requests from Shanghai enterprises. Moreover, the counseling services we provide are completely free, and regardless of whether the business is successful, we don't receive one cent."

This graduate of the University of Hong Kong, who has considerable insight into international economics and trade, hopes for greater cooperation between Shanghai and Hong Kong. He believes that Hong Kong's large- and medium-sized enterprises are all willing to invest and set up factories in Shanghai, and Shanghai is currently stepping up adjustment of its product mix and upgrading its light industrial and textile products, and that if Shanghai cooperates with Hong Kong enterprises, combining Hong Kong's modern designs with Shanghai's high-quality processing, the renovation of Shanghai's products could be greatly accelerated. And it would not be difficult at all for the two sides to expand cooperation: if only Shanghai's big factories designate one shop to serve as a Hong Kong "subsidiary," using modern equipment and skilled workers, they can produce products needed by international markets. That the products of the Shanghai Joint Wool Textiles Factory are selling well on international markets is one example of success.

That Shanghai's foreign trade will win instant success in the "Year of the Horse" and make great strides forward is Mr. Liang's heartfelt wish.

Competitive Pricing of Shanghai's Exports

90OH0483A Shanghai WEN HUI BAO in Chinese
6 Feb 90 p 2

[Article by Wang Lin (3769 3829): "How To Sell Shanghai's Export Products at Favorable Prices"]

[Text] Experts believe that the main factors affecting prices of export products include low level of production technology, limited number of high-grade, precision, and advanced products, and outmoded designs. It is necessary to use Shanghai's existing high technology and

mature technology to improve product quality, and capture international markets on the strength of low prices and quality products.

Shanghai currently has nearly 10,000 kinds of exportable commodities, the total weight of its export commodities is over 2 million tons, and its annual foreign exchange earnings have broken the \$5 billion barrier, and yet Shanghai accounts for only 0.103 percent of the total volume of world trade. A huge disparity exists between its export volume and that of developed countries. Experts believe that in order to sell export commodities at favorable prices and increase the value of commodities, it is necessary to utilize the two "eyes" of market information and scientific and technological information, and use Shanghai's existing high technology and mature technology to improve produce quality, and capture international markets on the strength of low prices and quality products.

Shanghai's products generally occupy an important position in China, Shanghai has abundant strength in mature produce production technology, its labor-intensive products have a large production quantity and broad production surface, and they enjoy a fairly high reputation in certain third world countries, but it is very hard for them to gain access to markets in first and second world countries. Even though a small amount of goods enter these markets, unless they are dished up in new forms, they can only enter inferior goods markets, and some have to be sold by street peddlers, so that their foreign exchange earning rate is extremely low. Exactly what factors brought about this situation? The Municipal Science Commission and Municipal Science Association organized specialists in such fields as machinery and electrical appliances, petrochemicals, light industry, foreign trade, and information, and conducted a 16-month study. The specialists believed that the main factors affecting China's export goods prices were as follows:

First, there are few high-grade, highly sophisticated products, and development of new types of products is slow, so that they cannot form substantial competitive strength in international markets. Viewing overall the 100 major commodities exported by Shanghai, the vast majority are inferior, low-value products, and there are almost no high-tech products. According to a survey, most of the responsibility for Shanghai's production for export of machinery and electrical appliances and light industrial products is concentrated on a few small- and medium-sized enterprises with inferior conditions and weak technological capability, and it is very difficult to form a complete set of high-grade famous-brand leading products in a short time. In addition, although the speed of joint development of new products by Shanghai's scientists and industry is second to none in China, according to statistics, it still takes one and one-half years from receipt of information to the formal sample. These products can often become stale and lacking in interest in fast-changing international markets.

Second, there is little variety of designs, sizes, and colors of commodities, and designs are obsolete, making it hard to meet the needs of international markets. For example, over 4 million bicycles are sold annually on the U.S. market, and Taiwan sells the United States as many as 3 million or more bicycles annually, accounting for 75 percent of U.S. bicycle imports, while Mainland China, known as the "Kingdom of Bicycles," exports only 1.5 million bicycles annually, of which very few can enter the U.S. market. The reason for this is that the bicycles produced by China are regarded as a means of transportation to take the place of walking, and their designs are still those of the 1930's and 1940's, while what the U.S. consumer demands is exercise equipment, a new style of vehicle with mountain-climbing capability. Shanghai's bicycle firms have also made efforts in this area, but due to such factors as the long test-production period, poor product quality, and low safety standards, it is difficult to break into the U.S. market with large-volume exports.

Third, the level of production technology is low, quality is unstable, standardization and serialization are poor, and the selling price of commodities in international markets is not high. For example, among Shanghai's staple export commodities, hardware, mechanical equipment, and cereals, oils, and foodstuffs usually cannot get into supermarkets due to problems with quality, and have to enter inferior commodity markets, or be sold cheap by street peddlers. Other commodities are not believed on time, their packaging is out of date, and they lack attractiveness for major international investors.

Experts believe that it is necessary to utilize Shanghai's strengths of abundant scientific and technological capability and satisfactory variety of talented personnel to further improve and upgrade special product technology. The experts recommend that to this end, it is first necessary to use the two "eyes" of market information and scientific and technical information, and thoroughly understand international market supply and demand quotations and customers' demands with regard to types and functions of commodities. Second, start an economic consulting and scientific and technical consulting industry, use information and data, adopt scientific methods, conduct processing, and provide scientific research and production departments with market forecasts and a basis for the feasibility of production; set up sales promotion companies, extend feelers to the outside world to open markets, and cooperate with foreign firms in a timely manner to attain the goal of opening international markets; and organize and establish contingents to quickly develop products which will sell rapidly in international markets, and promote the formation of scientific, industrial, and trade enterprise groups. It is also necessary to adopt appropriate special policies, economic policies, and trade policies.

Tianjin Approves Jordan-Invested Joint Venture

SK0804111090 Tianjin TIANJIN RIBAO in Chinese
17 Mar 90 p 1

[Text] The Tianjin Manchester Fabric Limited Company jointly established by the Zhongta Trading Company of Jordan and the Mudanjiang Woolen Blanket

Plant of Heilongjiang Province was approved recently. This is the first joint venture established by Jordan entrepreneurs in our municipality.

The total investment of the Tianjin Manchester Fabric Limited Company is \$420,000, and its annual capacity is 100,000 blankets, of which 70 percent will be exported.

In January and February this year, our municipality approved the establishment of 15 enterprises invested in by foreign businessmen. Total investment in these enterprises is \$13.89 million, of which 53.5 percent is made by the foreign side.

Joint U.S.-Tianjin Venture Proves Successful

OW1204204490 Beijing XINHUA in English
1536 GMT 12 Apr 90

[Text] Tianjin, April 12 (XINHUA)—The Tianjin-Otis Elevator Co., a Sino-U.S. joint venture located in Tianjin City, has produced 6,000 elevators, and made a profit of 135 million yuan over the past five years.

Wang Yunqi, deputy general manager of the company, said that [words indistinct] products took up 17 percent of the domestic market.

With the approval of the Chinese Government, the company has set up 16 branches in China, forming a nationwide marketing network.

Now 90 percent of the elevator components are made in China, Wang said.

He noted that it is partly thanks to the introduction of new management techniques that the company's productivity has been rising steadily.

The joint venture produced 800 elevators in the first year of operation, but now it turns out 1,500 elevators a year, in spite of the fact that it has trimmed its work force by 400.

The company is now implementing a five-year plan in a bid to increase its annual output to as many as 3,000.

Tianjin Increases Exports During First Quarter

OW1204194690 Beijing XINHUA in English
1527 GMT 12 Apr 90

[Text] Tianjin, April 12 (XINHUA)—Tianjin, a major coastal city in north China, exported 310 million U.S. dollars-worth of commodities in the first three months of this year, up 2.7 percent over the same period of last year.

Meanwhile, its imports were valued at 160 million U.S. dollars, a 23 percent drop compared with the same period in 1989, according to the Tianjin Customs Office.

Among the exported commodities, machinery and electrical products brought in 48.32 million U.S. dollars, a 6.64 percent increase over the same period of last year, while garments and textiles exports dropped slightly in term of value.

The customs statistics show that imports of machinery and electrical products by the city have been effectively curbed. In the first quarter of this year such commodities worth 62.92 million U.S. dollars were imported, a 38.68 percent decrease compared with the same period of last year.

Xinjiang Assisted in Developing Soviet Bloc Trade

90OH0401B Hong Kong WEN WEI PO in Chinese
10 Feb 90 p 28

[Article: "Beijing Grants Xinjiang Nine Preferential Measures To Help the Region Open Up To the Soviet Bloc—Export Procedures Are Simplified, Foreign-funded Enterprises in Nine Cities Exempt From Import Tax"]

[Text] Hong Kong CHINA NEWS AGENCY, 10 Feb—Urumqi News: In a recent decision, China's State Council granted Xinjiang nine preferential measures to help the region open up to the east while reinforcing the opening to the west and vigorously developing trade and economic and technological cooperations with the Soviet Union, Eastern Europe, and the Middle East.

The nine preferential measures are:

The repair and construction of the Beijing-Xinjiang Railway will continue and will eventually link up with the Soviet railway system. The Urumqi International Airport will be expanded, actively pursuing a direct route between Xinjiang and the Soviet city, Alma Ata.

Preferential treatment such as import duty exemption enjoyed by foreign-funded enterprises in the cities of Urumqi, Ili, Shihezi, and Kashi has been extended to those in the cities of Aksu, Korla, Changji, Turpan, and Hami.

The state will give Xinjiang special consideration in terms of matching funds in the region's construction of an export commodities base.

Xinjiang is given the freedom to examine and approve the setting up of economic and trade organizations abroad, except in Hong Kong, Macao, and countries with whom China has no diplomatic relations.

Local export trade procedure are simplified.

The state will give Xinjiang special consideration in cotton exports.

The two ports, HUOERGUOSI and Tugurmiti (?), along the Chinese-Soviet border will be permitted to issue entry permits to personnel from a third country (region.)

The state will help Xinjiang regulate its foreign exchange.

Xinjiang's 1990 Export Goals Announced

90CE0033A Beijing GUOJI SHANGBAO in Chinese
1 Mar 90 p 1

[Article: "Xinjiang Has Made Sound Export Plans, and Will Strive To Increase Its Foreign Trade Turnover to More Than \$500 Million in 1990"]

[Text] I learned from the recent Xinjiang Province Conference on Foreign Economic Relations and Trade, that

Xinjiang's foreign trade goals for 1990 are to ensure completion of state-assigned export tasks and attainment of the export turnover target of \$350 million that was set for Xinjiang in 1990, the last year of the Seventh 5-Year Plan, by striving to achieve an export turnover of \$375 million, or 16 percent more than in 1989. Moreover, it will put foreign capital to more positive use and develop more effective foreign economic and technical interchanges.

The new export turnover record of \$360 million that was set by Xinjiang's foreign economic relations and trade staff members and workers of all nationalities in 1989, especially pleased Xinjiang's leaders. Faced with 1990's grim situation and numerous difficulties, it is going to be very hard for Xinjiang to continue to increase its exports. In order to act in the spirit of the National Foreign Trade Planning Conference to make sound export plans, the Xinjiang Foreign Economic Relations and Trade Department held the Conference on Foreign Economic Relations and Trade right after the Spring Festival to assign tasks, dovetail plans, and draw up measures without delay. Zhang Sixue [1728 1835 1331], deputy secretary of the Xinjiang Province CPC Committee, and Hedeerbai [0149 1795 1422 2157], vice chairman of the Xinjiang People's Government, gave important speeches at the conference, in which they emphasized the importance to the state and to Xinjiang's political stability and economic development, of maintaining a steady growth of exports. The participating delegates indicated unanimously that developing foreign economic relations and trade and speeding up economic growth, is both a sacred duty for Xinjiang's foreign trade staff members and workers, and also a contribution which must be made to stabilize the overall situation.

Xinjiang is going to take the following steps to ensure its 1990 exports: 1) It is going to take full advantage of the favorable opportunities created by exchange rate modifications, emphasize procurement of supplies of marketable goods, ensure completion of its 930-million-yuan goods-supply plan, and do all it can to increase its exports. 2) It is going to deepen reform by upholding and perfecting the "dual guarantee contract" management responsibility system. The conference honored its promise to reward the nine prefectures, autonomous prefectures, and cities that surpassed their 1989 goods-supply plans and penalize the three prefectures and cities that failed to fulfill their contract bases, and further clarified its provisions on the respective rights and duties of and rewards or penalties for all specialized, prefectural, and autonomous prefectural companies. 3) It is going to give full play to the leading roles of all specialized companies while arousing the initiative of industrial, local, and frontier trade companies, and pay particular attention to cash exchange export trade while emphasizing barter trade with the Soviet Union and East Europe, taking positive steps to increase the foreign exchange earnings of the three kinds of foreign trade enterprises, and developing diversified kinds of foreign

economic and technical cooperation. 4) It is going to take specific steps to improve the economic environment and rectify the economic order, improve the foreign economic relations and trade climate, revise and better implement measures to strengthen control over export commodity plans, prices and markets, and gradually standardize and institutionalize its four measures to control trade with the Soviet Union and East Europe, economic and technical cooperation with the Soviet Union, and foreign trade enterprises. 5) It is going to look within, tap its inherent potentials, emphasize "dual increases and dual savings," and strictly control export cost increases.

ECONOMIC ZONES

Wuhan Zone Becomes Top Optical Fiber Base

OW2203123990 Beijing XINHUA
in English 0739 GMT 22 Mar 90

[Text] Wuhan, March 22 (XINHUA)—The Donghu New Technology Development Zone in Wuhan has become the country's largest base of optical fiber technology development and production.

The zone's output of optical fiber and cables now accounts for half of the country's total. Besides, about one-third of the country's posts and telecommunications research personnel are located in the zone. They belong to the Wuhan Posts and Telecommunications Research Institute, the Wuhan Telecommunication Devices and Spare Parts Company, the Changjiang Telecommunication Industrial Group, the Changfei Optical Fiber and Cable Co., Ltd. and other units.

The zone can produce all kinds of optical fiber telecommunication commodities including optical fiber, optical fiber cables and optical-electrical devices and spare parts. Many of the products are up to advanced international standards. The quarternary [as received] grouped optical-fiber telecommunication technology developed by the research institute has been applied in the main telecommunication line along the Yangtze River.

The Wuhan Telecommunication Device and Spare Parts Company earned three million U.S. dollars from the export of its optical-electrical products last year. The Changfei Optical Fiber and Cable Co., Ltd. will be able to produce 50,000 km of optical fiber and 6,000 km of optical fiber cables a year after it goes into production later this year.

POPULATION

Minister Affirms Importance of Population Control

900H0315A Beijing LIAOWANG [OUTLOOK]
in Chinese No 1, 1 Jan 90 pp 7-8

[Article by Peng Peiyun (1756 3805 0061), Minister of State Family Planning Commission: "Controlling Population Enriches the Nation and Makes the People Strong"]

[Text] China, a developing country that is populous, has a poor foundation, is relatively poor in resources per capita,

and has an unbalanced economic and cultural development. There are evident contradictions in population growth vis-a-vis economic and social development and vis-a-vis resource utilization, environmental protection and ecological balance. This is China's basic situation. In the fifties and sixties, population increased sharply and with serious consequences because the requisite understanding of this basic national situation and control of population growth was inadequate. Since the seventies, China has begun to promote family planning vigorously. After the Third Plenary Session of the 11th CPC Central Committee in particular, with the shift of work emphasis to the socialist modernizations, our party made family planning a basic national policy. It adopted a series of resolute measures that enabled family planning to enter a new stage, bringing about enormous achievements which became the focus of world attention.

The drive for excessive population growth has been controlled. This is an evident as a sign of the great accomplishment of family planning. The overall birth rate of Chinese women has declined from 5.68 in the sixties, 4.01 in the seventies, to 2.47 in the eighties. In comparison with the sixties, women's overall birth rate in the eighties declined 57 percent; the population birth rate and natural growth rate is lower than the average of the world's developing nations. Calculated in terms of the birth level of 1970, from 1971 to the end of 1988, over 200 million fewer babies were born, which greatly reduced the pressure of excessive population growth on clothing, food, and housing, as well as such areas as education, employment, medical care, the ecology, and the environment.

Encouraging changes have taken place in marriage and birth ideas among the masses and this is another sign that is evident of China's achievements in birth control work. With economic and social development, especially through propaganda and practice of family planning, more and more people are gradually coming to understand that the number and quality of children born is not only related to the interests and well-being of the family, but is also related to the strength of the country and the prosperity of the nation. The new style of family planning, late marriage and late child-bearing, and having fewer and better children is gradually taking shape. In 1970, of the children born annually, the single child rate was only 20 percent, and the multiple child rate was over 60 percent, but in 1988 the single child rate had increased to over 50 percent, while the multiple child rate had dropped to about 15 percent. Currently, a total of over 34 million women of child-bearing age who have had only one child and have been awarded single child honor certificates. This number is double that of the pre-sixties and seventies period; over 70 percent of the married couples of child-bearing age used contraceptive measures, with a total reaching over 150 million couples.

Family planning work has also promoted improvements in quality of population. With developments in such areas as

economic construction and culture and education, public health, and physical education, there have been evident improvements in the quality of China's population. The preaching and practice of family planning has played a positive role in improving the quality of China's population. The average anticipated life expectancy of China's population before the founding of New China was 35 years, but by 1987 that had been increased to 69 years. Before the founding of New China, the death rate and child death rate of the population was over 25 per thousand and 200 per thousand, respectively, but in the eighties this dropped to below seven per thousand and 40 per thousand, respectively.

As the eighties pass away, conscientiously looking back on the path taken by family planning it is essential that we affirm the accomplishments and summarize the experience as far as future work is concerned. As we move into the nineties we must soberly see that the population situation facing us is still serious and the task of controlling population growth is enormous. This is because China's population base is very large, with a total population of over 1.1 billion; also, we are now at the third birth peak period since the founding of the People's Republic of China. In the second birth peak of 1962-1975, 360 million people were born, and beginning in 1986 they began to enter the period of marriage and childbearing. From 1986 to 1997, between 11 and 13 million young women will enter the peak child-bearing age annually, nearly double the number of the two child-bearing peaks since the founding of the PRC. The early nineties, in particular, will be a peak in population births. In this period, the number of women of child-bearing age, the number of women who are in the stage of fertile child-bearing age, and the number of women entering peak child-bearing age, all of whom have a direct impact on the population birth rate, will be much higher than in the last half of the eighties. In the last half of the nineties it will decline, but the numbers will still be fairly large. According to current birth levels, in the Eighth-5-Year Plan period, the total number people born in China annually will be about 23 million, a net increase of about 16 million, and the natural growth rate will be between 14 and 15 per thousand. Thus, by the end of this century, it will be very difficult to keep the total population of the country to approximately 1.25 billion.

We should also note that the development of China's family planning work is very unbalanced. China's 30 provinces, autonomous regions, and municipalities directly under the central government can be roughly divided into nine types on the basis of the family planning work foundation, the capacity to control population, and the level of births. One type of region in which the work foundation is good, policy is strictly enforced, and the birth rate has dropped to the replacement level is represented by eight provinces which account for 22 percent of the total population of the country; the second type of region in which the work has a good foundation, policy is enforced well, the birth rate is lower and is tending to decline steadily is represented by four provinces which

account for 22 percent of the total population of the country; the third type of region in which the work foundation and policy enforcement results have been alright, but the birth rate tends to rise and fall is represented by 10 provinces which account for 43 percent of the total population of the country; the fourth type of region in which family planning was promoted late, the work foundation is poor and the birth rate is high is represented by eight provinces and regions which account for 13 percent of the total population of the country. The last two types making up 56 percent of the total population of the country are 18 provinces and autonomous regions where the economy and culture are for the most part backward, and some are border regions or minority nationality regions. In some regions, the distance between state policy and the desire for children among the population is very great, and there are many problems in promoting family planning. These serious imbalances will also be difficult to change fundamentally in a short time.

We definitely should fully understand the seriousness of China's population situation and the difficulty of family planning work, and resolve to control population growth more effectively through long-term hard work.

The nineties will be a critical period for China's population control work and also will be the best opportunity for China to readjust the population totals and age make-up. If we can adopt forceful measures, strictly control population growth, and hold down the birth peak as much as possible, not only will it directly be related to realizing the population control targets of the end of the century, but also will be beneficial to forming gradually a more sensible population age makeup by the end of this century. Thus, we must consolidate and expand our achievements on the current work foundation, constantly study and resolve new problems, striving to do a better job of family planning work in the nineties.

First of all, we must further improve everyone's understanding of the fundamental national policy of family planning so that the entire party and all the people, especially party and government leadership cadres at all levels, understand the developmental situation and trends in China's population and recognize the seriousness of the population situation, recognize that strictly controlling population growth is a critical matter for bringing reorganization under control and realizing the strategic targets of China's economic development and hence improve population awareness and the idea of "per capita," and improve the self-consciousness of implementing and enforcing the fundamental national policy of family planning.

Second, we should resolutely implement the existing family planning policy. If the current family planning policy can be implemented one hundred percent throughout the country then it can bring about that each woman has on average only 1.5 children rather than the current approximately 2.5 children.

To improve inspection and monitoring of population and family planning work we should further improve the responsibility system of population target management and implement management by directives for population growth in all regions. In addition, we should further improve building the legal system and gradually establish new procedures for managing family planning work according to the law.

Third, we should make a major commitment and devote all our energies to improving grassroots level building and foundation work of family planning so that the principle of the "three primaries" of education, contraception, and day to day work is truly grounded at the grassroots level, as well as gradually carry out making family planning work regular, standardized, and scientific, raising family planning work to a new level. To this end we should vigorously improve family planning science and technology work and the training of family planning cadres to provide first-rate service for the masses.

Fourth, we should actively urge relevant departments and organizations to carry out comprehensive control of the population issue and adopt additional strongly directed policies and measures to establish a beneficial orientation to the procreative behavior of the masses.

Family planning is a major undertaking which is related to the wealth and power of the state, the prosperity of the nation and the well-being of the people. In the nineties we definitely should harbor a strong sense of historical responsibility, tread on solid ground, open up a path ahead, and resolutely carry out family planning work in order to appropriately contribute to the realization of the strategic targets of China's economic development.

TRANSPORTATION

6 Billion Yuan Budgeted for Rail Construction

HK0404151990 Beijing RENMIN RIBAO in Chinese
25 Mar 90 p 2

[Summary] Beijing, 23 Mar—According to news from the National Railway Construction Work Conference, 6 billion yuan is budgeted for railway construction this year, an increase of 670 million yuan over last year. The Ministry of Railways plans to lay 282 km of new track, commission 348 km of multiple track, and build 852 km of electric railway.

The state has implemented a policy slanted toward the backward railway industry. Sun Yongfu, vice minister of railways, called on departments responsible for railway capital construction to be thrifty and hardworking, and make optimum use of the limited funds available. Investment should focus on projects which can be completed and commissioned this year. Priority should be given to core projects along the six major passageways: the passageway for transporting coal from Shanxi, and

the east China, north-south, northeastern China, northwestern China, and southwestern China passageways.

Railway construction this year includes investment in a wide range of key new-line projects and in commissioning electric railways. Tracklaying starts in May for the second phase of the Datong-Qinhuangdao railway project, and the whole multiple-track Datong-Baotou railway line will be commissioned. In the east, a marshalling yard at Xuzhou railway center will be completed and commissioned, and the electric Yingtan-Xiamen line will be largely completed. In the southwest, the electric Guiyang-Kunming railway will be open to traffic along its whole length. Finally, this year's budget for the Houma-Yueshan railway is 340 million yuan.

Fujian Opens More Ports to Foreigners

OW2603071790 Beijing XINHUA in English
0644 GMT 26 Mar 90

[Text] Beijing, March 26 (XINHUA)—Fujian Province in east China opened more ports to foreigners, according to today's overseas edition of the PEOPLE'S DAILY.

Xialong port in Fuqing County has been approved to handle loading and unloading of commodities for export for Chinese ships, while Qianyu in Lianjiang County has become a trial port for shipment of aquatic products for export.

Fuzhou port and Dongshan port have set up special offices to handle the export of fisherman laborers. Dongshan port is also allowed to receive foreign ships temporarily.

Docks of the Quanzhou Petroleum Company, the Fujian Provincial Marine Fishing Company and the Mawei shipyard have been allowed to receive foreign ships and engage in oil loading and ship repair.

Fujian Province already has 45 ocean and air transport centers. There are 19 centers specially for handling trade with Taiwan.

Last year, these ports handled 44 million tons of exports and imports, and 360,000 overseas travellers, including over 100,000 from Taiwan, passed through the ports.

New Channel Opens at Mouth of Chang Jiang

OW2703215790 Beijing XINHUA in English
1538 GMT 27 Mar 90

[Text] Shanghai, March 27 (XINHUA)—A new channel Yawosha in the entrance of the Yangtze River [Chang Jiang] passed examination and is put into use today.

From today on, all ships leaving and entering the mouth of the Yangtze River will have to go through the new channel, which is 250-meter wide and 7.3-meter deep.

The former channel will be abandoned because of sand deposits.

Containerized Marine Transport System Growing

OW2903075890 Beijing XINHUA in English
0826 GMT 28 Mar 90

[Text] Beijing, March 28 (XINHUA)—China is establishing a containerized marine transportation network linked to the present trunk and branch sea lines, according to the Ministry of Communications.

Since the beginning of the year, the country has opened up a new sea route for containers, joining Shanghai, Xingang, Dalian, and Qingdao ports, and with Shanghai as the transfer port.

A ministry official said over 30 shipping companies are now involved in international container transportation at 17 coastal ports, including Shanghai, Tianjin, Guangzhou, Qingdao, Dalian, Xiamen, and Nanjing.

The country has more than 50 international container sea routes linking Europe, the United States, Canada, Australia, New Zealand, Southeast Asia, the Persian Gulf, the Mediterranean Sea, Japan, and Hong Kong, with over 200 voyages each month.

By the end of last year, China's major coastal ports could transport 1.17 million containers, about 1.6 million tons of cargo, increases of 20 and 10 percent, respectively, over the previous year, the official said.

China Ocean Shipping Company, the pioneer and mainstay of the country's containerized transportation, now has over 70 container ships, and is one of the world's biggest shipping companies.

Fujian Expands Domestic Air Routes

OW1603143990 Beijing XINHUA in English
1042 GMT 16 Mar 90

[Text] Fuzhou, March 16 (XINHUA)—The Civil Aviation Administration of Fujian Province in east China will open eight new air routes to various parts of China starting from April 1, bringing the total number of air routes to 22.

The Fujian Civil Aviation Administration now has flights to Beijing, Shenyang, Shanghai, Nanjing, Hangzhou, Hefei, Wuhan, Xian, Chengdu, Changsha, Jinan, Xiamen, Haikou, Dalian, Qingdao, Harbin, Zhengzhou, Urumqi and Lanzhou cities, as well as a scheduled flight to Hong Kong.

The new routes will link Fuzhou with Haikou, Dalian, Harbin via Qingdao, Urumqi via Zhengzhou, and Lanzhou.

The number of flights to some major Chinese cities, like Beijing, Guangzhou, Shanghai and Xian, will also be increased.

Lhasa-Kathmandu Air Route Reopens

OW0104042390 Beijing XINHUA in English
1516 GMT 31 Mar 90

[Text] Lhasa, March 31 (XINHUA)—The international air route between Lhasa, capital of the Tibet Autonomous Region, and Kathmandu, capital of the kingdom of Nepal, was reopened today.

The route was opened in 1987 and suspended after the anti-government rioting in Tibet in March last year.

From April 25 a Boeing 707 of Air China will fly every Saturday from Lhasa to Kathmandu, and a Boeing 707 of Royal Nepal Airlines will fly from Kathmandu to Lhasa every Wednesday.

Zhejiang To Open New Airport in May

OW1903212690 Beijing XINHUA in English
1613 GMT 19 Mar 90

[Text] Hangzhou, March 19 (XINHUA)—The new Yueshe Airport in Zhejiang Province's Ningbo City near Shanghai will open in May, according to a municipal transport official.

Jianqiao Airport in Hangzhou will close for repair from June 1. Some flights currently flying in and out of Hangzhou and Zhuangqiao airport in Ningbo will be transferred to Yueshe Airport, the official said.

The new airport's 2,500-meter runways can handle Boeing 737's, MD-82's and other medium-sized passenger planes.

PRC MEDIA ON FOREIGN ECONOMIES

Lessons From India on Foreign Debt Management

90OH0427A Chongqing GAIGE [REFORM] in Chinese
No 1, Jan 90 pp 184-187

[Article by Ren Huizhong (0088 2585 0022) and Yang Kaiqi (2799 7030 0796): "Comparative Study of the Foreign Debt Management Systems of China and India"]

[Excerpt] [passage omitted] II

Drawing on the experience of India, following international practice, and proceeding from China's national condition, China should take the following measures to improve its foreign debt management in the near term.

A. Set up a sound, unified foreign debt management mechanism, and conscientiously strengthen the macro management of foreign debt. The key to whether China's foreign debt management will be successful lies in whether it has a unified foreign debt management mechanism. The successful practice in the world is usually to have a unified foreign debt management authoritative

mechanism set up under the Ministry of Finance. Therefore, China should set up a state debt management committee empowered by the State Council, led by the Ministry of Finance, and recruiting members from the relevant ministries and commissions, with its day-to-day business handled by a mechanism set up in the Ministry of Finance. The state's debt management committee should mainly be responsible for: in line with the policy goals and investment strategy for the macro economy, formulate for China's foreign debt a macro policy, mid- and long-term plans, and a moderate scale of debt; formulate a yearly plan and scale for foreign debt, a debt structure, and a growth rate; with the improvement of economic results and the improvement of the capability to generate foreign exchange by exports as the starting point, formulate an investment strategy and an applied direction for the utilization of foreign debt, and set up a system for analyzing and evaluating work and a feedback system for tracking results; set up a system that can provide the newest, comprehensive statistical information on foreign debt, which will collect, count, and analyze all forms of China's foreign debt; and in line with the situation in the international money markets and the requirements for the development of China's national economy, determine the currency-type structure for foreign debt, the loaning countries and regions or a certain market, the forms of loaning and other technical indices, and adopt various kinds of international instruments that can provide and utilize money in an effort to lower the total cost of raising funds.

B. Under the premise of centralizing the management of foreign debt, put into effect the management by objective at separate levels, thus unifying macroeconomic control and microeconomic invigoration. The degree of economic development in all areas of China is uneven. The concrete economic results of loans and the ability to create foreign exchange are different, and the risks of various kinds of debt are different. Therefore, policy decisions on China's foreign debt management should be centralized and unified, but the specific ways of management ought to be flexible and separated by level. China's foreign debt should be divided into four objects of management—state foreign debt, local foreign debt, enterprise foreign debt, and bank foreign debt—and be separately managed. The state's foreign debt management can be linked to the state's foreign exchange reserves, and the state's foreign exchange reserves can be the backup force for repayment; local foreign debt management can be linked to the foreign exchange owned by the locality, including foreign exchange given in batches by the central authorities and retained foreign exchange, with the locality's own foreign exchange as the backup force for repayment; enterprise foreign debt management will link up with the enterprise's own capability for generating foreign exchange, and will be strictly examined; and bank foreign debt management should be an organic combination of the national economy's demand for and ability to bear foreign debt on the one hand and the bank's ability to raise money from and repay foreign

debt, with consideration given to the principle of operating on one's own initiative and seeking by oneself a balance.

C. Readjust the debt structure. China should as much as possible strive for official debt and lower the proportion of private debt; and constantly readjust short-term debt so that it is changed to long-term debt, debt is divided into streams, the rationalization of debt time limits is promoted, and debt repayment peaks in a world economic recession or crisis are prevented. In addition, China can adopt the practice of Latin American countries by applying debt capitalization so that the debt is on the point of changing into China's direct investment. In this way China's debt burden can be eased and its debt worthiness enhanced, and also the investment by foreign countries in China can be indirectly increased, thereby promoting the development of the domestic economy and improving the capability to repay debt. Starting now China should initiate talks to this end and formulate the relevant measures and legal provisions, so that we can give preferential treatment to foreign businessmen who are willing to do this, and by so doing insure China's interests.

D. Scientifically guide the direction of foreign debt. With the goal of optimizing the industrial structure, we should guide the direction of foreign debt. For a period in the future, China should continue to use part of the foreign direct for the indirect promotion of foreign trade exports of energy sources, communications, raw materials, and other items; and at the same time it should gradually switch its focus to the use of directly expanded trade exports and large batches to replace export items; guide the foreign debt in the direction of advanced technological types and export exchange-generating type items, as well as the technological transformation of existing enterprises. It should put money into items that can spur electromechanical technological progress, as well as items that can spur produce raw and subsidiary materials and parts in order to make up a large batch of complete sets for the technological import of goods made in China. At the same time China should put the foreign debt firmly into the national economy and the social development plan, clearly stipulating encouragement or permission, prohibition or restriction of where foreign debt goes. Through the formulation of policies and decrees, and from the aspects of politics, economics, technology, and law, the direction of foreign debt is controlled and guided in a timely manner, so as to organically combine the direction of foreign debt with the state plans. Thus, after insuring where every item of foreign debt is taken out, we can achieve a foreign exchange balance surplus and promote a benign cycle of foreign debt.

E. Optimize the currency structure of foreign debt. At present, about two-thirds of China's total foreign debt is calculated in Japanese yen. However, the greater part of China's export income is in American dollars, and when the time comes, foreign debt is repaid in American dollars. Since 1985 the yen has appreciated 50 percent

against the dollar. If in the early nineties the high exchange rate of the yen is maintained, China will suffer major losses. To optimize the proportional structure of foreign debt, China should make corresponding readjustments in the foreign debt currency unit structure, appropriately increasing the proportion of the dollar and reducing the proportion of the yen. Of course, attention must be paid to the movement of the dollar's interest rate. If the dollar's interest rate is excessively high, we should measure the gap between it and the dollar's exchange value. Conversely, we should reduce the proportion of the dollar in the state's foreign exchange assets structure. It looks as if the dollar's exchange rate within the short term will still tend to fall, and so we must increase the proportion of the dollar, and in particular increase the gold reserves. In periods of sharp fluctuations in the exchange value and in period of economic crisis, gold is a fairly good object for maintaining value.

F. Get a tight grip on the training of talented persons. For China's foreign debt management to bring forth outstanding results, the key lies in training a number of foreign debt managerial and administrative talents who possess a certain level of theory and practice in international finance, and this is an urgent issue for China's foreign debt management. Therefore, we must immediately get a tight grip on the training of talented persons. Allowing cadres to study while working and tempering their maturation is, of course, important. However, like training any kind of talent, it is really necessary to train, with a goal and a plan, a large number of specialized talents to handle foreign debt management.

G. There must be foreign debt legislation. An urgent problem now in China's foreign debt management is that China should, as fast as possible, formulate and promulgate the relevant laws and regulations on foreign debt management, thoroughly change the current phenomenon in which there is no foreign debt management in line with legal measures. In addition, after the foreign debt laws and regulations are promulgated, we must emphasize the raising of the consciousness of obeying the law on the part of basic-level administrative and managerial personnel, strengthen the concept of the legal system, and truly achieve a situation in which the law is known and the law is obeyed.

AGRICULTURE

Regulations Planned To Protect Farmland From Pollution

OW3003041490 Beijing XINHUA in English
0228 GMT 30 Mar 90

[Text] Beijing, March 30 (XINHUA)—The Ministry of Agriculture and the State Environmental Protection Agency are working out the first regulation to protect farmland from pollution.

The draft would limit industrial discharges of waste water in agricultural areas and forbid excessive use of

pesticides and fertilizers, said Jiang Jianzhong, deputy head of the environmental protection department under the Agriculture Ministry.

According to official estimates, 6.7 million hectares of farmland have been contaminated by waste water, petroleum products and cinder. This reduces an annual grain harvest by 10 billion kilograms.

Nearly two million hectares of farmland have been polluted by industrial waste and urban sewage waters.

"The regulations are designed to stipulate the major tasks and the basic requirements of protecting the agricultural environment," Jiang said.

"They are specific measures to help enforce the national environment protection law."

The draft regulations will spell out what agricultural protection is needed and who in the government is responsible for seeing it accomplished.

They also detail the penalties for those responsible for pollution.

Industry is one source of pollution, said Jiang, and agriculture itself is another.

Misuse and overuse of pesticides and chemical fertilizers and waste from township factories which produce sulphur and cement all contribute to agriculture pollution.

"Now these factories are being ordered to control the pollution they have been producing within a definite period of time," said Jiang. "They have got two choices—either they do something about it or they close down immediately."

"In recent years, measures have been taken to control the development of township enterprises producing coal, sulphur, paper and cement. These industries produce considerable waste," he said. "These measures have helped bring down the harmful residues in farm produce."

Anhui Corn Area

40060045A Hefei NONGLIN KEXUE SHIYAN
in Chinese No 2, 22 Feb 90 pp 2-4

[Summary] In 1989 the corn area in Anhui Province was over 5 million mu, accounting for less than five percent of the grain area. In 1990 the planned corn area is 6 million to 6.5 million mu. At present, the per unit area yield is less than 250 kilograms.

Beijing Increases Agricultural Loans

40060043F Beijing BEIJING RIBAO in Chinese
14 Mar 90 p 1

[Summary] In 1990 agricultural banks and credit cooperatives in Beijing plan to increase agricultural loans by 480 million yuan.

Cattle, Milk Production Up in Beijing

OW1404093490 Beijing XINHUA in English
0926 GMT 14 Apr 90

[Text] Beijing, April 14 (XINHUA)—The number of cattle in Beijing increased from 40,000 head in 1985 to 60,000 head last year. The production of fresh milk jumped from 135 million kilograms to 203 million kilograms over the same period.

Per capita fresh milk consumption in the city was 33 kilograms last year, tops in the country.

The boom is due largely to the preferential policies adopted by the municipal government and scientific breeding, according to a front-page story carried in the latest issue of *MARKETING NEWS*.

Supplies of fodder, steel, wood, cement and other materials and loans are guaranteed every year to encourage cattle breeding.

Beijing has also imported more than 50 high quality bulls from the United States, Canada, Japan and Denmark since 1985 to improve its herds.

Hebei Governor Advocates Agricultural Technology

900H0380A Beijing LIAOWANG [OUTLOOK]
in Chinese No 3, 15 Jan 90 pp 11-12

[Interview with Yue Qifeng (1471 1477 1496), governor of Hebei Province, by LIAOWANG reporter Yu Shao-liang (0060 4801 5328); date and place not given: "How To Tap the Potential Power of Science and Technology for Agricultural Development"]

[Text] Agricultural production contributes to world peace and stability. The Fifth Plenary Session of the 13th CPC Central Committee called on the whole party and nation to concentrate on agricultural development and for science and technology to lead the way. Hebei is one of China's major grain-producing provinces. What plans do they have in the province for agricultural development with the help of science and technology? What is planned for the near future? With these questions in mind, this reporter paid a visit to Governor Yue Qifeng of Hebei Province.

[LIAOWANG] A new task on the agricultural front is to find a way out of stagnation and push grain and cotton production up to a new level. What specific plans are being considered in Hebei Province?

[Yue Qifeng] Take a look at Hebei's conditions. There are 98.51 million mu of cultivated land and about 30 million mu of reclaimable wasteland including some 8 million mu of reserve farmland. While land resources are limited, the population is growing and arable land is shrinking at alarming rates each year. Therefore, it is impracticable to increase production by expanding the sown acreage. At present, as both the state and the province are in financial straits, and the peasants'

income is low, it is also unrealistic to try to increase production by greatly increasing investment of money and materials in a short period of time. Under the circumstances, the most practicable and feasible way is to increase scientific and technological input in agriculture and rely on science and technology to increase per unit area yield. Among all the factors in agricultural development, science and technology require the least investment and produce the greatest results. Take wheat for example. Since the founding of the People's Republic, the wheat variety in Hebei has been changed five or six times, and each time wheat yield has increased by about 30 kg without a lot of investment by the state or the peasants. Also for example, Hebei created 1.62 billion yuan of value in 1989 by carrying out 42 technological extension projects on wheat, corn, peanuts, and so forth alone. Therefore, it can be said that science and technology are the multipliers in the equation of agricultural production. In a single generation, production and economic returns can be increased several and even dozens of times. Therefore, we have set our sights at science and technology for agricultural development.

[LIAOWANG] What specific steps have been taken in Hebei in recent years to explore science and technology for agricultural development, and what results have been achieved?

[Yue Qifeng] In the past few years, our attention has been focused mainly on further increasing the production of the high-yield areas and transforming the middle- and low-yield areas. The purpose is through these two different kinds of experimental and demonstration farms to show cadres and the masses the potential power of science and technology for agricultural development. Shijiazhuang is China's well-known high-yield agricultural area. Can production be further increased in these high-yield areas? Gaocheng City in this prefecture was chosen by the technological and agricultural departments for experiments. Gaocheng's per mu wheat yield was already 491 kg in 1988, and it seemed very difficult to get any higher. However, a superior hybrid wheat variety, developed by Hebei Agricultural University and the Hebei Academy of Agricultural Sciences, was selected for the 1988 autumn planting, and the result was a per mu wheat yield of 585 kg. The success of the Gaocheng experiment has demonstrated that by relying on science and technology it is entirely possible to further increase grain production. Of the province's 98.51 million mu of cultivated land, 70 percent are middle- and low-yield fields, and this is where the hope lies for Hebei to raise agricultural production to a new level. Since 1986, the province has set up eight agricultural experimental districts in the middle- and low-yield areas to carry out scientific research and popularize the practical application of the new technological achievements. In the past four years, 23 technological achievements have been popularized, which have increased grain production by 1.13 billion kg. At the Longwanghe Experimental District in Wuqiao County, Professor Wang Shuan [3769 2885 1344] and others of Beijing

Agricultural University developed the technique for the continuous cropping of late wheat and summer corn, and in 1988 achieved a per mu grain yield of 1 ton on 140 mu of experimental fields, a miracle in the middle- and low-yield areas of the Huanghe, huaihe, and haihe plains. Application of the new technique was extended to 3,000 mu in Wuyao County in 1989.

Emphasis has also been placed on group contracts in the past few years in promoting agricultural growth with science and technology. A contracting group is formed jointly by scientific and technological, supply and marketing, and goods and materials departments, combining their technological and material resources, to contract for agricultural production on a large tract of land. At present, 32,532 people in the province have joined the contracting groups, producing grain and cotton under contract on more than 40 million mu of land. Through the group contracts, scientists and technicians have passed on a great deal of well-organized scientific and technological know-how to the peasants and achieved notable results in higher yields.

[LIAOWANG] The potential power of science and technology is indeed very great for agricultural development. But how can this potential power be tapped fully to speed up agricultural development?

[Yue Qifeng] In the developed countries today, 80 percent of the agricultural output value is attributable to production raised by science and technology, as compared with about 40 percent in China. Some 30-40 percent of the results of agricultural scientific research in China is pigeonholed, and the rest is being popularized but not effectively. Therefore, the present emphasis in boosting agricultural production with science and technology should be on popularizing the scientific and technological achievements now available and turning them into productive forces as quickly as possible. Just by actually putting some of the existing agricultural techniques into practice, we can notably increase production, reduce cost, and achieve higher grain and cotton yields. As the peasants say, production can be increased without spending a lot of money. Take the practical technique for fertilizer application for example. On the one hand, chemical fertilizers are in short supply and prices are rising sharply in China. On the other hand, chemical fertilizers are used by peasants with a very low effective utilization rate. From experiments, scientists have found out that the common way the peasants spread chemical fertilizers has a utilization rate of only 14 percent. The fertilizer utilization rate can reach 27 percent when applied with water. By deep application between rows, the utilization rate can reach 40 percent. Because of improper application, the chemical fertilizer utilization rate of the whole province is only 18 percent at present. If the conventional technique of soil testing and mixed application of fertilizers is popularized, more than 1 million tons of chemical fertilizers can be saved by the province each year, which is equivalent to building a large chemical fertilizer plant. This can reduce agricultural costs correspondingly. A major hindrance to transforming scientific and technological achievements into productive

forces is the lack of a sound socialized service system to serve the peasants in the rural areas. Therefore, to speed up the transformation of scientific and technological achievements into productive forces, it is imperative to establish as soon as possible a complete socialized service system to serve agriculture. At present, several thousand peasant cooperative economic organizations have been formed in the province. Some of these organizations are set up spontaneously by the peasants, and others are formed by functional departments and enroll peasants as members. In a certain sense, these organizations are an embryonic form of a socialized rural service system.

[LIAOWANG] The lack of a sound socialized service system is a major obstacle to boosting agricultural production with science and technology. Does not the quality of the peasants also have a certain bearing on agricultural development with science and technology leading the way?

[Yue Qifeng] Yes. Whether science and technology can be transformed quickly into productive forces depends to a very large degree on the quality of the peasants. In some economically developed countries, to be the head of a family farm, one must have six years of basic and professional education and earn a green certificate. But in China, nearly 200 million of the 800 million peasants are illiterate. Therefore, improving the cultural and technical qualities of the peasants should be regarded as the foundation for science and technology to promote agricultural development. Hebei Province has adopted the following measures in the past few years. The first is the introduction of a "three plus one" experiment in regular middle-school education. That is, after finishing three years of senior middle school, a student must take one year of specialized technical training, obtain a "green card," and then graduate and work as a peasant. The second is the training of junior and senior middle school graduates and demobilized and retired servicemen in rural areas, striving to help them each master one or two practical agricultural techniques. The third is the popularization of the Xinluo County experience, which consists of popularizing scientific and technological knowledge among peasants by setting up a science popularization center in the county, equipping each town or township with a projector for agricultural technical films, providing each village with a box of tapes, holding a technical class for each tract of land, and training one person in each family. Only when the masses of peasants are better qualified technologically and culturally, will it be possible for science and technology to speed up agricultural development like a spark starting a prairie fire.

[LIAOWANG] What is the strategic goal of Hebei Province in promoting agricultural development with science and technology in the next few years? Are there any supporting measures?

[Yue Qifeng] Tentatively the provincial party committee and the provincial government are aiming at increasing the province's total grain output to at least 22.5 billion kg and possibly 24 billion kg and total cotton output to 750

million kg by 1992. To insure achievement of this goal, we have, in addition to transforming and tapping the potential of the middle- and low-yield fields and relying on science and technology to further increase the output of the high-yield fields, decided to use advanced science and technology to change the farming pattern and increase the multiple cropping index in areas with suitable conditions. We will introduce integrated cultivation of cotton and wheat and integrated growing of summer and autumn grain crops to significantly increase grain and cotton production.

The competition for land between cotton and wheat is a major problem facing agricultural development in north China. In the history of Hebei Province, the problem of having to increase grain production at the expense of cotton and vice versa has arisen time and again. After many years of work by the agricultural research units, we have now developed a set of integrated cotton and wheat cultivation techniques; that is, to sow a crop of wheat between rows reserved for cotton on the same field, and when the wheat is nearing maturity, sow a crop of cotton between the rows of wheat. The province developed 1.3 million mu of integrated cotton and wheat fields in 1989 and plans to increase the number to 3 million by 1992. Experiments have shown that each mu of land can produce a first crop of 300-400 kg of wheat and a second crop of 50-100 kg of ginned cotton. This cultivation technique has solved the problem of competition for land between grain and cotton and made it possible to increase both cotton and grain production. As to the integrated planting of summer and autumn grain crops, it is mainly the intercropping of wheat and corn, using superior wheat and corn seeds with different maturing periods. Corn is sown in wheat fields, and wheat is sown after the corn is harvested. The purpose in integrating summer and autumn grain cultivation is to increase the production of both, so that each mu can yield 400-450 kg of wheat and 550-600 kg of corn, totaling 1 ton of grain. This technique can be extended to about 10 million mu of farmland in Hebei, and according to estimates by experts, the "integrated fields" can increase grain production by more than 100 kg per mu. When that happens, grain production can be increased by at least 1 billion kg. If we can make good use of science and technology in agricultural development, it is entirely possible to push grain, cotton, and edible oil production up to new levels.

Hubei Cotton Area

40060045C Wuhan HUBEI NONGYE KEXUE
in Chinese No 3, 5 Mar 90 p 13

[Summary] In 1989 the cotton area in Hubei Province was 6,277,000 mu, the average per mu yield was 50 kilograms, and gross output was 312,750,000 kilograms. In 1990 the planned cotton area is 6.8 million mu, and gross output is expected to exceed 400 million kilograms.

Hubei Grain Sales Drop

40060045B Wuhan HUBEI RIBAO in Chinese
1 Apr 90 p 1

[Summary] Government grain departments and farmers in Jingzhou Prefecture are having difficulty selling grain. At present, the amount of grain in storage has increased more than 200 percent over the same period in 1989. Storage capacity for the entire prefecture is 1.35 billion kilograms, granaries are full and 360 million kilograms of grain are piled up outside. Farmers have about 750 million kilograms of grain on hand waiting to be sold. The market price for grain is lower than the state procurement and negotiated price for grain. A shortage of funds is one major reason for this problem.

Issues in 'Pivotal' Jilin Livestock Industry

90CE0073A Changchun JILIN RIBAO in Chinese
16 Feb 90 p 4

[Article by Zhang Shuwen (1728 2885 2429): "Several Strategic Problems in Jilin Province's Development of Animal Husbandry"]

[Text] Animal husbandry holds an important position in the rural economy of Jilin Province; its prospects for development are extremely broad; and it forms an important apical point for the development of agriculture as well as for a takeoff of the entire rural economy.

In today's circumstances of decline in relative benefits from grain farming and insufficient reserve strength for the development of agriculture, energetic development of animal husbandry is an effective way in which to steady interest in grain production to bring about a benign cycle in both the agricultural ecology and the rural economy. Animal husbandry is not only an extension of farming, but also an important stronghold for rural processing industries. In this sense, one might say that it is a pivotal industry. To a very large extent, the modernization of agriculture, and rural industrialization depend on large increases in animal products.

Orientation of Development: Equal Emphasis on "Two Types"; Development in Two Directions

Against the broad background of a serious shortage of grain for livestock feed, the orientation for development of animal husbandry nationwide should be defined primarily in terms of livestock raising that conserves grain. The reality is that Jilin Province differs from the rest of the country in terms of the condition of resources and the market environment. For some time to come, the orientation of development of animal husbandry should be set with equal emphasis on "two types," and development in two directions.

The province has ample feed concentrates, and it has the "microclimate" needed for development of a grain-type livestock industry. It also has abundant coarse fodder resources, so potential is very great for development of a

hay-type livestock industry. Both a hay-type and a grain-type livestock industry should be given equal importance in the future, equal emphasis being placed on both types for development in two directions that provides a structural solution to livestock industry problems of steady, highly efficient, and rapid development. Development of a grain-type livestock industry requires primarily intensive expansion of reproduction. In extensive expansion of reproduction, emphasis has to be placed on a hay-type livestock industry. During the near term, the ammonization, salinization, and saccharification of corn stalks should be made a common practice as quickly as possible, with more being done to store both green and yellow feeds. Scientific research unit experiments show livestock crops are two or three times more useful than grain crops for fodder. In some countries in which animal husbandry is well developed, the percentage of livestock crops is very great. Similarly, in countries and regions having a long winter season like the one here in northeastern China, the proportion of silage used for livestock feed is somewhat more. For the longterm, general methods should be suited to local circumstances for a readjustment of the structure of farming to develop some fodder crops having high feed value in the gradual formation of a farming pattern consisting of grain, cash crops, and livestock fodder in order to insure and advance an optimum structure for, and coordinated development of the livestock industry.

Means of Implementation: Science, Technology, and Scale Plus Service

Overall, the livestock industry in most parts of the province remains largely in the traditional livestock industry stage of decentralized raising of animals and nonintensive operations. Demolishing this old pattern as quickly as possible must begin with a transformation of the traditional livestock industry, vigorous efforts made to spread new techniques for raising livestock and poultry, and to develop operations on an appropriate scale of intensity for a gradual increase in specialized production and the degree of social services. Only by taking this road can giant strides be made toward a modern commodity livestock industry.

Acceleration of scientific and technical progress is a fundamental technique for transforming traditional animal husbandry. Practice everywhere shows that technical progress in animal husbandry determines economic returns, determines the scale of operations, determines the extent of commercialization and organization, and also determines the speed of advance. In short, it determines the level of development of the entire livestock industry. The use of warm sheds for the raising of livestock and poultry that the peasant masses in Jilin Province pioneered marks a major technical breakthrough in the development of animal husbandry in northern climes. It has played a decisive role in the shortening of the livestock raising cycle, in lowering costs, and in improving economic returns. Classic experiments have shown that new techniques for raising hogs centering around warm pens and the provision of fine

breeds, fine feed, and fine methods increase net income by 74 yuan per hog, and lower feed consumption 33.5 percent as compared with traditional hog raising methods. Hogs are removed from inventory 130 days earlier, the labor productivity rate rises more than 10 fold, and the rate of removal from inventory is as high as 213.5 percent. This is more than double the average for other places. Not only is this true for hog raising, but results from the application of new techniques in other regards for the raising of livestock and poultry are also very remarkable. The problem today is that these techniques are being spread only slowly, and only within narrow confines, mostly because of the lack of an operating mechanism that combines science and technology with production. Some places have blazed new trails through the practice of reform in these regards. They have assembled various techniques for application, and they have combined them with the promotion of substantive departmental operations in coordinated implementation that has produced remarkable results.

A scale of operations centering around individual peasant household operations is the principle model promoted in the transformation of the form of animal husbandry production. The goal of commodity production is to get the maximum economic return, and a proper scale of operations is an inherent requirement for attainment of this goal. In today's world, animal husbandry production methods may be divided into three main types as follows: One is the decentralized raising of livestock by countless households; a second is large scale factory-like raising; and a third is an appropriate scale of operations by mostly peasant households. In view of the state of current productivity in our rural areas, main emphasis on the promotion of a suitable scale of production by peasant households is the optimum choice at the present stage. A large body of facts shows that it is in the places that do a good job of arranging a proper scale of operations that returns are high, development fast, and the pace steady in the livestock industry. In Dongliao County, four percent of households practice the raising of hogs on a proper scale. They are responsible for 40 percent of all hogs removed from inventory in the country, and they provide 60 percent of commodity hogs, giving powerful impetus to rapid and steady development of hog production. Operations on a proper scale may be said to be necessary for production of all kinds.

Providing livestock- and poultry-raising households with associated production, supply, processing, and marketing services is a successful avenue for propelling animal husbandry toward a new stage in commodity production. The essence of a commodity economy is large scale socialized production in which the close linking of production, supply, processing, and marketing forms a chain. Whenever anything goes wrong with one link, the entire reproduction process is impeded. In animal husbandry, which has just entered the stage of commodity production, the processing and marketing links are frequently fairly weak, and they are not sufficiently tied in with production. All jurisdictions actively

explored and courageously experimented with solutions to this problem, blazing a successful trail in which production, supply, processing, and marketing were linked together to form a whole. Success in this endeavor was basically attributable to its embodiment of the principle that production relations must be consistent with productivity. First, it was in keeping with the level of rural productivity at the present stage. It enabled a majority of peasant households in which the level of education, skill, and business capabilities are not yet very high to engage in commercial animal husbandry with commensurate support provided by the organization of new kinds of services. Second, it played a role in the emancipation of productivity, making it possible to demolish the closed economic nature of traditional animal husbandry, and to change the backwardness of production methods, thereby enabling fuller use of production elements such as surplus labor and idle capital. Third, it was able to advance the development of productivity, using new investment of production factors to optimize organization, and to promote technical progress and operations on a proper scale, thereby raising productivity to a new level in both an intensive and extensive sense. Fourth, it played a role in the protection of productivity, promoting the economically coordinated and healthy development of animal husbandry through a readjustment of returns from each of the links of production, supply, processing, and marketing, by offsetting gains against losses, and by jointly sharing risks. In addition, associated services played a role in promoting the binding of new techniques to the development of operations on a proper scale, resulting in the latent mutual needs of both being changed into real mutual advances.

Policy Measures: Using Tilt To Assault Difficult Points

In the process of changing animal husbandry from a household sideline occupation to a relatively independent industry, policy support is required in many ways. The founding of a relatively independent livestock industry is impossible in the absence of the tremendous power that policies provide. Currently, animal husbandry policies are still very imperfect in many locales. A series of tilt policies must be adopted that take as their point of departure what is beneficial for the development of animal husbandry, and that focus on numerous existing difficulties in the circulation and processing of capital, livestock feed, and livestock products to make full use of their roles in providing direction, in causing attraction, in providing encouragement, and in offering protection.

An independent livestock industry requires numerous channels for increasing the investment of capital. In places where the foundation for animal husbandry is weak, usually there is a very great shortage of capital, so government investment, investment of credit funds, as well as use of agricultural development funds should be tilted, insofar as possible, in favor of animal husbandry as development needs require. The overall principle should be that as a percentage of total investment in

agriculture, financial institution's investment of capital and granting of loans for animal husbandry should gradually reach the percentage by which the output value of animal husbandry accounts for the gross output value of agriculture. They should set up individual accounts for which the pay back period is appropriately extended. In the establishment of an animal husbandry development fund, a portion of funds may be apportioned from the agricultural development fund. The grassland fund, the tax on the butchering of livestock for self-consumption, and livestock fodder funds should also be tapped. A very large amount of capital is needed for the development of animal husbandry, so the interest in investment of all quarters of society, of government at all levels, and of the broad masses of peasants must be aroused to the full for a widening of the sources of funds. Entrepreneurial units and social groups should be encouraged to use funds they possess, or social welfare funds to operate livestock farms and livestock products processing plants. A certain number of households specializing in livestock raising that invest their own funds should be given loan priority. Active efforts should be made to attract investment from outside prefectures, outside the province, and outside the country to operate livestock enterprises, providing them policy preference in order to create a fine investment climate for them.

Perfection of the livestock fodder system, striving to do a good job of production and supply. Livestock feed is the material foundation for development of animal husbandry. The production and supply of livestock feed has a direct bearing on the level of production, economic returns from, and the speed of development of animal husbandry. Expert studies show that of all the material factors affecting economic returns in animal husbandry, improvement of feed has a 49 percent effect. Use of blended feeds saves approximately 40 percent more grain than the direct feeding of grain, and increases economic returns 50 percent. Today, the blended feed used in raising livestock and poultry in all locations is less than 20 percent of the total amount of feed used. All jurisdictions should make a major effort to build and improve feed production and supply systems, build and improve coordinated mechanisms, and improvement management. They should do planning that takes all factors into account to form a rational pattern that changes the futile "movement of raw materials into cities only to cart livestock feed back to the countryside." Centralized planning should be done for a portion of livestock feed raw materials, a portion of corn sold at negotiated prices each year being provided as raw material to large and medium size livestock feed processing enterprises at a price just sufficient to cover costs with a slight profit. When the amount provided is inadequate, enterprises should be permitted themselves to make purchases, or to have grain and supply and marketing units make purchases for them, using their own funds, or receiving support from the Bank of Agriculture and credit cooperatives. Priority should be given to assuring livestock processing industry needs for bean cake and wheat bran from within the province, shipment outside

the province or export of wheat bran not being needed. When bean cake goes outside the province, a real-estate protection fee should be collected. Livestock feed processing enterprises should operate at a miniscule profit, the combined industrial and commercial profit rate being held within seven percent. When enterprises operating at a profit rate of less than five percent have difficulty paying their taxes, upon approval, they should be allowed a tax reduction or exemption. The transparency of livestock feed prices and quality supervision should be improved, the comparison of blended livestock feeds, costs, and profits made open. Consideration should be given to studying the formulation of livestock feed control methods for a step-by-step building of a system of control according to law.

Coordination of the interests of all parties concerned to energize the circulation of livestock products. When development of animal husbandry enters the commodity economy stage, a smoothly operating commodity circulation system is of crucial importance. The only approach is to do things according to economic laws, apply the laws of value, coordinate the interests of all parties concerned, and use economic policies to unify thinking and actions for the shaping of relatively stable, smoothly operating channels of circulation. The principle of "removal of restrictions and invigoration" should be followed to advocate, encourage, and protect many channels for dealing in livestock products. State-owned businesses should continue to be the main channel. They should proceed from overall interests in supporting production and stabilizing markets, tap inherent potential to the full, and increase the amounts of livestock products purchased, particularly live hogs, to do a good job of evening out market supplies by storing products during peak periods and selling them during slack periods. Grassroots livestock stations, and livestock and poultry companies of all kinds should be encouraged to deal substantively in conjunction with the technical promotion work that they do, vigorous support being given to them with regard to funding, tax collections, and industrial and commercial control. Trading in futures is a fine way for producers and marketers to meet each other directly, producers to make a profit, and consumers to benefit that should be vigorously encouraged and actively practiced, with state-owned firms, collectives, and individuals taking part. All sorts of livestock products markets should be established and improved as quickly as possible. In major livestock product producing areas, specialized markets, wholesale markets, and auction markets should be established in a planned way. In markets that are privately established or jointly established, those who make the investment should receive the benefits. Protective price policies should continue for hog production, the protective price being set fairly on the basis of the feed-pork price ratio.

Doing things backwards should be guarded against; the emphasis should be on supporting livestock product processing. The livestock product processing link plays a decisive role in increasing the degree of serialization,

commercialization, and modernization of animal husbandry production. More basic equipment for butchering, cold storage, shipping, and greater processing should be added in a planned way at livestock product production bases to improve the collection, distribution, and handling capacity of major producing areas for the shaping of flexible markets. The building of new processing enterprises, or the technical transformation, updating to tap potential, and renovation and expansion of existing processing enterprises should be made a part of local plan, priority going to getting projects going, and to providing support with funds and materials, with suitable concern shown in tax matters. In providing funds for the support of local industries and township and town enterprises, the emphasis should be on investment in livestock product processing projects. Livestock industry development funds, and funds obtained from other channels may also be correspondingly concentrated for local use in livestock product processing, placing particular emphasis on turnkey enterprises that function in leading households specializing in livestock production. In the building of livestock product processing enterprises, all possible should be done to build them in places where raw materials are in abundant supply for the shaping of a serialized production pattern in which production, processing and marketing are done locally, and meshed with nearby areas. More should be done to link processing enterprises closely with raw materials production, encouraging direct exchanges between industry and animal husbandry to reduce erosion of intermediate benefits for mutual benefit, and to advance coordinated development of the animal husbandry economy.

Tianjin Restrictions of Meat, Egg Consumption

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[Article by Bao Yongjiang (0545 3057 3068), Suburban Institute of the Tianjin Municipal Academy of Sciences; and Deng Shutian (6772 2885 3944), Urban Survey Team, Tianjin Municipal Bureau of Statistics: "Tianjin City's Meat, Poultry, and Egg Consumption Policy, and Readjustment of the Consumption Structure"]

[Text] I. Current Status and Characteristics of the Tianjin Municipal Meat, Poultry, and Egg Consumption System

The consumption system is made up of consumers, consumption practices, the consumption structure, the level and acceptance of consumption, the channels through which consumption is carried out, and organizations for coordinating consumers' interests. The Tianjin municipal meat, poultry, and egg consumption system is an important integral part of the overall national meat, poultry, and egg consumption system, and the overall Tianjin municipal consumption system. It is a food consumption system that involves primarily staff members, workers, and residents of the urban area, that centers around pork (and poultry second), and in

which purchases are made mostly through market channels, municipal authorities providing necessary administrative support. The level of consumption is higher than in other areas, and the elasticity of demand is becoming increasingly fixed. It has the following characteristics:

1. *Dual nature of suburban population.* Both formerly when peasants mostly raised livestock for their own consumption, and more recently when the trend has been toward marked commodity production, most local governments allowed suburban and country rural population meat, poultry and egg consumption to develop by itself, neither limiting it nor providing overall support to it. Government macroeconomic control concentrated on urban area staff members, workers, and residents. Government instituted tilt policies and provided overall support, the two thereby developing asynchronously in different external environments and internal operating mechanisms, and exhibiting marked differences. Between 1983 and 1988, annual per capita meat, poultry, and egg consumption in the Tianjin urban area increased 38.7 percent, or by 12.9 kilograms. During this same period, per capita peasant consumption in Tianjin's suburbs increased only 28.4 percent, or by 2.9 kilograms. In 1983, annual per capita meat, poultry, and egg consumption in Tianjin was equivalent to that of 3.2 peasants in Tianjin's suburbs. By 1988, it increased to that of 3.8 peasants.

2. *The narrow overall range of consumption of urban residents means that an overly large percentage of their expenditures for individual consumption are for meat, poultry, and eggs.* The [Ernst] Engel coefficient is 10 percentage points higher than for other countries in the world having an equal income level. Even though China remains in the initial phase of socialism, its per capita heat energy and protein intake already exceeds that of developing countries and of Asia.¹

4. *The degree to which urban residents' customary meat, poultry, and egg (as well as vegetable, dairy products, and fish) consumption is satisfied holds rich political overtones.* Urban residents regard the amount of food available for consumption, and whether consumer prices are low and stable as an important indicator of the country's political situation and the political achievements of the authorities, i.e., they view the situation in "grocery basket" terms. Whenever little changes occur, rumors abound; people become alarmed, and panic buying becomes the order of the day.

5. *Low level welfare support type consumption policies.* During 1988, per capita income and expenditures of urban Tianjin residents averaged 110.81 yuan and 106.57 yuan respectively, expenditures for food products and for meat, poultry and eggs amounting to 55.78 and 14.97 yuan respectively.² Obviously this far exceeded the subsistence requirement line, and was at a more than adequate food and clothing level. Continued use of increasing financial subsidies to sustain consumption demand for meat, poultry, and eggs resulted in changing

what had originally been a consumption policy of a subsistence support type into a consumption policy of a low level welfare support type.

6. *The multichannel funneling mechanism and the low and fixed elasticity of demand that prices wrought.* When consumer prices of meat, poultry, and eggs rise, enterprises are first to feel the effects. Enterprises then increase bonuses, subsidies, and materials to reduce the effects of prices, and to absorb part of the price rises. During 1988, enterprises under ownership of the whole people within budget alone paid 189 million yuan in nonstaple food subsidies. The second to feel the effect is government. Of the 966 million yuan in nonstaple food subsidies that the government paid in 1988, 366 million yuan was in hidden subsidies, and 600 million yuan was an open subsidy. When prices rise excessively, and administrative methods are used to limit market prices, actually this amount to passing on price rises indirectly to suppliers. The ultimate regulatory role of price signals transmitted to consumers themselves is virtually nil, or a reverse regulatory role may even occur. Take pork for example, for which the price and output correlation coefficient is 0.1306, while the price and consumption volume correlation coefficient is 0.6351. This lopsided positive correlation shows an extreme weakening of the limiting role of market prices on consumers.

7. *Consumption Acceptance Psychology, and the Duality of the Economy.* The low level consumption support policy that the country has long pursued with regard to cities, particularly with regard to the residents of large cities, takes long term constant market prices as its point of departure and point of return. Consequently, while satisfying residents' consumption demand, it fosters in residents a price psychology of stability, narrowness and slowness to change that makes for the growth at different rates of consumers' economic acceptance and psychological acceptance, a "drop" forming between the two. A survey questionnaire from 500 households in Tianjin showed only 7.2 percent as believing that meat, poultry, and egg prices "required no adjustment" 31.6 percent as intending to "continue to increase consumption" in the future; and only 16.2 percent as preparing to "eat less of what they were unable to afford" in the future. However, at the same time, as many as 43.7 percent were in favor of future "state limitation of supplies through rationing at constant prices." This fully demonstrated consumers' contradictory psychology in seeking stability while desiring change. The variance between what consumers are willing to accept economically and what they are willing to accept psychologically constitutes a major obstacle in guiding rational consumption.

8. *The Vanguard Nature of Nationwide City and Countryside Population Meat, Poultry, and Egg Consumption.* Both the amount of meat, poultry, and egg consumption, and the amount of increase in this consumption in recent years by the population of the Tianjin urban area are markedly higher than that for the city and town population and peasants nationwide. (See following table).

Table I.
Statistics Showing Changes in Meat, Poultry,
Egg Consumption Among Different Main Groups

	Tianjin Urban Population	National City and Town Population	Kgs per person per year
1983 Consumption	33.3	28.9	10.2
1988 Consumption	46.2	33.7	13.1
Increase Between 1983 and 1988	12.9	4.8	2.9

Source of Data: Tianjin Urban Survey Team

II. Abuses in Urban Meat, Poultry, and Egg Consumption Policy

Both historically and during the current period of national economic retrenchment, urban meat, poultry, and egg consumption policies have played a positive supportive role in maintaining mandatory balance between supply and demand, and in achieving social tranquility. Nevertheless, numerous abuses lacking a legal basis have come to light in the following four regards:

(1) Above Normal Consumption That Taxes the Strength of the Country, Cities, and the Citizenry Has Increased the Already Difficult-to-Bear and Increasingly Heavy Financial Subsidy Load.

1. The ever rising Engel coefficient shows an inverse change. Tianjin residents' per capita expenditures for meat, poultry, and eggs in 1988 were 118 percent higher than in 1978 (after deducting price factors). This was higher than per capita living expense payments, up six percentage points. Per capita expenditures for meat, poultry, and egg consumption as a percentage of total expenditures were 3.4 percentage points higher in 1988 than in 1978; and the Engel coefficient was higher than the average level for cities and towns nationwide and for peasants in Tianjin. (See Table 2).

Table II.
Engel Coefficient Lateral Comparative
Statistics for 1988

	Tianjin Residents	City and Town Residents Nationwide	Tianjin Peasants
Per Capita Monthly Living Expenses (Yuan)	106.57	91.99	59.50
Per Capita Monthly Food Expenses (Yuan)	35.28	47.23	27.23
Engel Coefficient (Percent)	32.1	51.4	45.8

2. The speed of increase in consumption of livestock food products exceeded the speed of increase in income. In 1988, actual per capita monthly income of Tianjin residents was 110.18 yuan. After deductions for price factors, this represented a 104.4 percent increase over 1978, or an annual 7.4 percent rate of increase. During the same period, however, consumption of livestock food products increased 128.5 percent. This was 24 percentage points higher than the former, and an annual 7.8 percent rate of increase.

3. Financial subsidies increased even faster. Comparison of 1988 with 1980 shows an 87.6 percent increase in per capita consumption of meat, poultry, and eggs, and a 4.1-fold increase in financial subsidies, government financial subsidies as a percentage of financial receipts and expenditures approaching a critical point.

(2) The Ever Increasing Rigidity of Meat, Poultry, and Egg Consumption, and the Extreme Weakening of Psychological Acceptance of Prices Breeds a Psychology of Defiance in Society.

Both forced satisfaction of the demand for abundant supplies of meat, poultry, and eggs, and price stability have maintained short-term social tranquility, and have also steadily fostered a potential danger of social upheaval in long-range development. On the one hand, residents' elasticity of demand for meat, poultry, and eggs has become increasingly fixed, but at the same time because both the speed of increase in income and the level of consumption are both higher than that of city and town residents nationwide, consumption demand irreversibly sustains price increases, but psychological acceptance of price increases is extremely weakened. Should the state suddenly remove price restraints, this extremely weakened psychological acceptance could develop into a psychology of social defiance that could move ahead with other contradictions to produce a social upheaval.

(3) An overall reduction of livestock feed resources has appeared. A tilt policy with regard to consumption that relies on holding down the level of consumption by the agricultural population in order to maintain an urban diet of high grain consumption is becoming increasingly difficult to maintain.

Since China is a country having relatively scant agricultural resources, numerous forecasts say that by 2000 the per capita amount of grain will be only between 400 and 424 kilograms (on the basis of a population of 1.25 billion). However, in 1988, per capita food consumption in Tianjin, translated into grain terms, already exceeded 500 kilograms, 165 kilograms of it being meat, poultry, and eggs. Consumption of other animal foods converted to grain terms raises the total to approximately 200 kilograms. Analysis in terms of nutritional standards shows that on the basis of rational dietary standards from the Chinese Academy of Sciences, Tianjin residents' meat, poultry, and egg consumption in 1988 exceeded standards by 11.4 kilograms. Of this total, the

quantity of heat from foods of animal origin (18 percent) exceeded standards by four percent, the total quantity of heat exceeding 150 kilocalories; protein exceeded standards by 10 grams, and fats exceeded standards by 50 grams. This above normal consumption today relies primarily on the relatively low income of the agricultural population nationwide, and their relatively low level of consumption of foods of animal origin such as meat, poultry, and eggs. Thus, a forced balance between the supply and demand for grain can be maintained through a tilt in consumption and imports. Such a situation is bound to be demolished in the future as peasant income rises, their diet changes, and consumption of meat, poultry, and eggs increases steadily.

(4) The urban welfare support type consumption policy has made cities overly attractive and has intensified "urbanization abuses."

In the course of the country's urbanization, the urban population increased 22.1 percent in 1987 alone; however, exceptionally large cities with a population of 1 million or more account for 28.34 percent of the total urban population (the three cities of Beijing, Tianjin, and Shanghai accounting for 7.93 percent of the entire urban population) for first place in the world. Such a distorted situation results primarily from the welfare support type consumption policy that causes the real incomes of staff members and workers in medium and small cities, and in cities and towns, to be far lower than for those in exceptionally large cities, making exceptionally large cities overly attractive. This also aggravates the decline in environmental quality, traffic congestion, housing shortages, increasing difficulty in organizing commodity supply, and a deterioration of social order. It makes it difficult for the central government to carry out a policy of "rigorously controlling the size of large cities, rationally developing medium-sized cities, and actively developing small cities and towns."

Therefore, it is imperative that a total view of the overall situation be made, advantages and disadvantages weighed, and a propitious time to readjust consumption policies selected, going on to regulate consumption practices and the make up of consumption.

III. Readjustment Difficulties and the Principles That Must Be Followed

Readjustment of the consumption policies that have taken shape gradually since founding of the new China, as well as the consumption patterns and consumption psychology that have grown up as a result of them is extremely difficult. The job will have to be done carefully to solve the following difficult points:

(1) Insure That Readjustment Do Not Adversely Affect Social Order and Political Stability. Analysis of the current situation shows that at least for the next two years reform of the price system and major readjustments of consumption policies cannot be done rashly if an unnecessary social shock is to be avoided.

(2) Insure That Readjustment Does Not Lead to Overall Imbalance, as a Result of Economic Retrenchment Leading to a Chain Reaction and Loss of Macroeconomic Control. Unless meat, poultry, and egg consumption policies, and the structure of consumption are readjusted through careful planning, a chain reaction involving other commodities can be ignited extremely easily (bandwagon increases occurring in the course of price readjustments, for example), going on to produce loss of macroeconomic control with the result that the anticipated goals of readjustment come to naught or even provoke new tumult in the economic order.

(3) Insure a Rational Direction of Flow of Urban Residents' Consumption Demand Following Readjustment, Applying and Removing Restraints. It is necessary not only to adjust urban meat, poultry, and egg consumption policies, but also to readjust overall consumption policies to bring them into line. Not only is it necessary to readjust the structure of urban residents' consumption, but also necessary to readjust the overall structure of the things that urban residents' can buy. This is a matter in the nature of complex systems engineering.

Therefore, readjustment should obey the following principles:

1. The principle of synchronized policy readjustments and improvement of the political, economic, and social environment. Headway in readjustment work must be rigorously limited to three areas, including what residents will accept psychologically and economically, what macroeconomic control and market regulation capabilities will allow, and what meat, poultry, and egg effective commodity supply capabilities will permit without going beyond these bounds.

2. The principle of proceeding in an orderly, step-by-step fashion. Every measure applied in readjustment should properly look after the vested interests of the masses in order to avoid arousing overly intense frictions regarding benefits, a piecemeal approach being used and many steps taken to reach goals.

3. The principle of partial readjustments to interrupt a chain reaction. Mostly economic methods should be applied in conjunction with administrative, legal, and other methods to forcibly prevent bandwagon prices rise from occurring among other unrelated commodities within a fixed period of time. When necessary, priorities may be set for the sequential readjustment of meat, poultry, and egg commodity prices.

4. The principle of timely effectiveness and time of selections. The time of adjustment should be during a period of political stability, ample supplies, and when policies and the awareness of the masses are in agreement.

IV. Goals, Patterns, and Remedies

(1) Goals and Modes

The goals to be attained with regard to Tianjin urban resident's future consumption of meat, poultry, and eggs

should be as follows: Readjustment of consumption policies should be the first step in the development of markets, increasing supply, and improving residents' psychological and economic acceptance as a basis for step-by-step building of rational nutritional requirements that are in keeping with national circumstances, national strength, and the city's circumstances and the city's strength, and that satisfy the residents for year-by-year improvement of the consumption guidance and support system. This should enable a gradual change in the currently disorderly growth and abnormal pattern of consumption toward an appropriate consumption pattern under macroeconomic regulation, the main ingredients of which would be as follows:

1. Reduction of political overtones to form new value concepts with regard to consumption. Adherence to the four basic principles should provide a backdrop for the use of public opinion and education in reconciling the understanding of policy making units at all levels and the broad masses of urban residents in order to separate the readjustment of consumption policies, the transformation of consumption patterns, and rational fluctuations in supply and demand from the political situation, and the social system for a weakening of political overtones.

2. Two-way coordination of supply and demand for the gradual formation of a consumption balance system approaching market control. The prevailing multi-level price channeling mechanism made up of government, enterprises, and consumers must be changed gradually to enable the market system, under state macroeconomic control, to exercise equal control and guidance over production and supply, and consumption demand to overcome the prevailing anarchic situation and the unregulated nature of consumption growth.

3. Establishment and perfection of a guidance and support organization to coordinate the interests of all parties and to guide rational consumption. Establishment and perfection of consumer guidance and support organizations should help develop a system for multilateral dialogue for the exercise of two-way macroeconomic regulation between production-supply and consumption demand, and between government and urban residents using numerous channels of the benefit-distribution structure, forming a rational consumption pattern under macroeconomic guidance.

4. Support for the vested interests of residents should form the basis for rational determination of the extent of meat, poultry, and egg consumption growth, and the degree of market fluctuations: (1) no elimination and no lowering of per capita level of existing financial subsidies, and the real benefits derived from them; (2) no reduction of the per capita level of grain following conversion of food consumption into grain terms; (3) continued maintenance, in the course of readjustment, of an appropriate "position difference" in meat, poultry, and egg consumption for Tianjin as an exceptionally large city and the residents of large- and medium-sized cities, and cities and towns nationwide; (4) this should be

used as a basis for proceeding from the country's national circumstances and national strength, and from rational nutritional requirements to the formulation of the needed extent of readjustment. In addition, the required degree of market supply and demand fluctuations (using prices as the main method for regulation) should be decided on the basis of residents' psychological and economic acceptance, and effective supply capabilities and ability to carry the financial load.

5. The make-up of things to be made available for purchase within the overall city consumption system should be widened as a means of guiding a shift in consumption demand. Otherwise, the application of restraints with no commensurate removal of restraints might easily result in the siphoning off of capital and the formation of negative forces that are difficult to control and that pound markets blindly.

(2) Steps and Remedies

In general, action should occur in three steps. The first step is the public opinion preparation stage in which mostly propaganda and education are applied, various organizations for consultation and dialogue employed for the vigorous propagandizing of the inevitability and the necessity for a readjustment of consumption policies and consumption patterns in order to bring about unanimity of understanding between the government and the masses. In addition, necessary restructuring of market procedures, increase in effective supply, and strengthening of macroeconomic regulation and control capabilities should be done to provide a fine and relaxed economic, social, and political atmosphere for the appearance of reform measures in the next step. The second step is the smooth transition stage in which stabilized subsidies and open markets are employed in a gradual price guidance role to adjust the makeup of consumption to form a balancing mechanism for consumption. The third step is the perfection stage in which associated actions such as reform of the wage system and the social insurance system are used for the gradual formation of a consumption growth mechanism in which consumption is linked primarily to labor contribution, and secondarily to social insurance (and nonsocial welfare), with the expectation that this mechanism will be basically completed by the end of the century.

The following actions will have to be taken to achieve this:

1. Increased Propaganda and Education, and Coordination of Ideological Understanding

In addition to making full use of propaganda tools such as newspapers and periodicals, radio broadcasts, and television to propagandize the significance of readjustment, full use should also be made of organizations such as the NPC, the CPPCC's "two meetings" and consumer organizations as nerve centers for spreading information, and for consultation and dialogue. Widespread and full propagandizing, discussion, and dialogue should be conducted in the following regards until basic thinking

stabilizes: (1) A transformation of thinking from abnormal consumption to frugal household management and belt tightening. (2) Education in the development of productivity and increase in the labor productivity rate as a basis for gradually improving life. (3) Education in the nation's circumstances, national strength, the city's circumstances and the city's strength. (4) A transformation of thinking from the irreversibility of consumption growth to consumption rising and falling as production rises and falls. (5) Education in the need for the masses to share risks with government and to coordinate the regulation of interests. (6) While maintaining the vested interests of the masses, the subsidies should gradually be transformed from a welfare support role to hardship subsidies, etc., keeping abreast of popular thinking at all times, this organization for discussion and dialogue gradually becoming the social early warning system that feeds back popular sentiment. It is also necessary to do more in the way of self-education of the leadership stratum, placing the focus on overcoming shortsighted actions in "spending money [on subsidies] to buy tranquility and unity," and proceeding from the long-range goals of the national economy to lead the people actively and steadily to change their consumption patterns to maintain reserve strength for economic development.

2. Judging the Situation and Choosing the Time

Looked at in terms of the historical practice of both other countries and our own country, the present abnormal consumption has not yet become irreversibly set in concrete. Now is a good time to change consumption patterns; however, the specific time chosen will require that the following conditions be in readiness: (1) a stable political situation, the authorities enjoying fairly high prestige; (2) fairly ample supply so that removal of restrictions will not raise prices; (3) fairly unanimous understanding between the authorities and the masses favoring readjustment; (4) withholding of needed financial resources as a risk fund to deal with short-term needs to keep markets in check; and (5) a free feedback of information in order to be able to feel the popular pulse at all times.

3. Reform of the Welfare Subsidy System To Smooth Transition

The first step is to stabilize subsidies, changing the prevailing limitless growth of hidden subsidies to fixed open subsidies, retaining the role of subsidies in preserving vested interests, eliminating the restraining role of subsidies in market regulation, and their role in stimulating consumption, while simultaneously stimulating the regulatory role of prices. The second step is to use improvement of the labor productivity rate as a basis for gradually making subsidies a part of wages through wage reforms, linking wages to labor contribution, and

simultaneously withholding some subsidy funds for use in alleviating the hardship of low income strata.

4. Control of Bandwagon Price Rises of Unrelated Products To Protect the Legal Rights and Interests of Consumers

Legal and administrative methods should be employed in the forced removal of currently existing bandwagon price rises. While removing restrictions on the prices of meat, poultry, and eggs, rules should be rigorously set for the products concerned and the extent of price adjustments for the building of a punishment system that ferociously punishes reckless bandwagon price rises. A reporting system should be established for the exercise of supervision by public opinion.

5. Regulation of the Structure of Meat, Poultry, and Egg Food Consumption in Conjunction With Readjustment of the Overall Structure of Consumption of Residents in Large Cities, and Expanding the Availability of Goods That Can Be Purchased

On the one hand, readjustment of the comparative prices of pork and poultry, making pork prices higher than poultry prices is a means whereby the scale of operations can be used to lower poultry prices (without raising pork prices). An alternative is reform of the housing system, appropriate removal of restrictions on negotiable securities markets, permitting residents to enter investment markets under plan guidance, and rational guidance of purchasing power to achieve both a removal of restrictions and control.

Footnotes

1. Data provided by the Nutrition and Food Sanitation Research Institute, Chinese Preventive Medicine Science Academy.

2. Survey data from the Municipal Survey Team of the Tianjin Municipal Bureau of Statistics.

Xinjiang Plans To Increase Output of Cotton

OW1304093490 Beijing XINHUA in English
0904 GMT 13 Apr 90

[Text] Urumqi, April 13 (XINHUA)—The Xinjiang Uygur Autonomous Region plans to turn out 350,000 tons of cotton this year.

According to the regional statistical bureau, the region harvested 294,700 tons of cotton last year, up six percent over the previous year.

Xinjiang is China's sixth largest cotton producer.

The region turned out two million tons of cotton between 1978 and 1989. Per capita cotton output rose from 4.5 kilograms in 1978 to 20 kilograms last year, highest in the country, according to the bureau.

High Schools Seen Negligent in Physical Education

90CM0036A Beijing ZHONGGUO JIAOYU BAO
in Chinese 22 Feb 90 p 2

["Communique" by State Education Committee:
"Implementation Situation and Investigation Results on
'Trial Application of Standard Test of High School
Physical Fitness'"]

[Text] Testing of new students from the high school class
of 1989 at some schools of higher learning to see how
they rated against "physical fitness standards" were
concluded at the end of December last year. This article
reports on the results of the test conducted at nine
institutions of higher learning that admitted students
from all over China.

A. Regions and Schools Serious in Implementing "Test of High School Students Meeting Physical Fitness Standards"

1. Active Implementation and Thorough Checkup

Education administrative agencies on all provincial,
autonomous region, and centrally controlled city levels
had devised their own rules for "Test of High School
Students Meeting Physical Fitness Standards" (abbrevi-
ated and referred to as "Test" for remainder of article).
Many provinces (regions, cities) also used media such as
newspapers, magazines, radio, and television to the
fullest extent, to publicize the "Test." Many meetings
were called in Gansu and Fujian Provinces to study and
discuss problems related to implementing the test. In
Jiangsu, Liaoning, and Shandong Provinces, standards
were also devised for checking how the "Test" was
implemented at various local high schools. Among them,
Jiangsu and Liaoning Provinces had completed their
survey and checkup work in the first half of 1989.

2. Definite Inclusion of Physical Education in School Schedule

When many high schools added physical education to
their curriculum, the time allowed for extracurricular
physical education training was ensured. Examples were
high schools in places such as Baotou, Bameng, and so
on, in Inner Mongolia; Nanjing Normal University High
School and Suzhou High School No. 10 in Jiangsu
Province; and Hainan High School in Hainan Province.

3. Adopting Various Measures To Help Meet Passing Standards

Through personal involvement, the leadership at many
high schools, including class chairmen and physical
education instructors, adopted measures such as
"reports to parents," counseling for those not quite fit,
and posting names of those who failed on bulletin
boards, in an effort to stimulate and encourage students
to meet "physical fitness education standards." According
to reports, high schools in the following localities
performed well in this area:

Shanghai: Wusong High School; Guangdong Province:
Huanan Normal University High School, Beijing High

School, and Shaokuan High School; Fujian Province:
Ninghua County High School No. 1; Shandong Province:
Jinan High School No. 1 and Jucheng County High
School No. 1; Hubei Province: Lotian County High
School No. 1; Qinghai Province: Huangzhong County
Doba High School; and Liaoning Province: Anshan High
School No. 1.

4. Strict Observance of Rules

Among students from the high school class of 1989 in
Yunnan Province, 327 were eliminated from taking
entrance exams to study at schools of higher education
because they failed their physical fitness tests. In
Shanghai, 168 were eliminated for the same reason. Also,
many high schools were not protective of students who
ranked high in liberal arts studies. For example, this
happened at Huangyen Lu Qiao High School, Linhai
Sheqiao High School, and Linan Yuqian High School in
Zhejiang Province; Nantong High School in Jiangsu
Province; and Nanhai Shihmen High School in Guang-
dong Province.

Regions and Schools Lukewarm in Implementing the Test

1. No Set Schedule for Physical Education Classes

Some high schools were committed to obtaining a high
college-bound rate among their students, and scheduled
physical education classes at random for seniors. For
example, this happened in high schools in the following
localities: in Hubei Province: Gonggan County High
School No. 3 and Jiangling County Mi Shi High School,
in Inner Mongolia: Xinhui High School and Hai La Er
High School in the Au Han Banner; and in Yunnan
Province: Dong Chuan High School. It was understood
that this phenomena existed throughout China in
varying degrees. According to a survey by the Huadong
Institute of Chemical Engineering, about 10 percent of
high schools in the nation stopped physical education
courses for high school seniors completely.

2. Abuse in Granting Physical Fitness Certificates (Cards)

Some high schools did not follow the rules when con-
ducting the "Test" and abused their authority in
granting cards attesting to high school graduates passing
their physical fitness test. This had a very bad effect. At
Laohekou High School No. 1 in Hubei Province, Yin-
jiang High School in Zhejiang Province, Sha County
High School No. 1 and Liling High School No. 1 in
Hunan Province, Lungnan High School in Jiangxi Pro-
vince, and Nanchung High School in Sichuan Province,
and some others, all the students needed to do was to
take the test to be certified that they passed. At Xiao Shi
High School in Ningpo, Zhejiang Province, most stu-
dents and teachers did not even know the content and
rules of the test in detail, but the high school graduates
received their cards that said they passed. Some high
schools in Tianjin and Sichuan even gave such cards of
proof to those (with good grades in liberal arts courses)

who did not meet physical fitness standards. This caused an outcry among other students.

3. Checks on "Outgoing" and "Incoming" Not Strict

The first year that the order stating that "no entrance examinations to study at schools of higher learning would be allowed for students not passing physical fitness test" became effective was 1989. To ensure that this order was carried out, both the commissioner for schools of higher learning and the commissioner for school physical education and health at the National Education Commission issued directives clearly spelling out the requirements. But it was discovered on examination that many of the current high school graduates who were selected did not have their cards or other proof. This indicated that some high schools did not take the "outgoing" check seriously. Some recruiting departments did not take the "incoming" check seriously, either. For example, some recruiting offices in Zhejiang Province took it upon themselves to fill out physical fitness cards for student applicants so they would qualify to take the entrance examinations. Students who were selected without physical fitness proofs include six at Zhongshan Medical University, 16 at Wuhan University, and 54 at Fudan University. Geographic breakdown on the origin by home town or province of the 54 students at Fudan University who had no physical fitness cards showed Shanghai (12), Jiangsu Province (10), Zhejiang Province (4), Henan Province (1), Fujian Province (3), Sichuan Province (2), Hubei Province (3), Xinjiang (1), Inner Mongolia (2), Anhui Province (3), Guangxi Province (2), Guizhou Province (1), and Liaoning Province (2).

Furthermore, from reports submitted by some schools of higher learning, it was found that in the absence of physical fitness cards or other documentary proof, some students at certain schools were allowed to take university entrance exams and were subsequently admitted. This included schools in the following localities: High School No. 1 in the town of Shehezi, High School No. 2 of A Le Tai, and the 143d Regiment High School of Shihezi in the Xinjiang Autonomous Region; Yongchang High School No. 1 in Gansu Province; High School No. 1 of Machine Plant No. 1 in Inner Mongolia; High School No. 18 of Chengdu in Sichuan Province; Longhu High School of Chaozhou in Guangdong Province; High School No. 1 of Loyuan in Fujian Province; Hanjiang County High School in Jiangsu Province; Xiangfan High School, Xiaogan High School, Xianfeng High School No. 1, Xi Shui High School No. 1, and Hunghu High School No. 1 in Hubei Province; and the Engineering Machine Plant High School in Qinghai Province.

Great Improvement Needed in Physical Condition of High School Graduates

Results from tests of 29,172 current high school graduates on three physical skills showed their physical

condition was in great need of improvement. Statistics from the test results on some high school graduates who had applied for nationwide college entrance exams by province (city, region) found more than of the students from 13 provinces (region) were not able, on tests of three physical skills (standing broad jump, 50-meter dash, and discus throw), to make a total of 180 points (see table).

The physical condition of students in better shape came from the following localities: Guangdong, Hainan, Beijing, Guangxi, Liaoning, Jiangsu, Inner Mongolia, and Tianjin.

Comparison by Locality of Students Not Making
(80-Point Total on Three Physical Tests)

Province (Region, City)	Percentage (%)
Guangdong	30.48
Hainan	32.35
Beijing	33.48
Guangxi	33.68
Liaoning	36.24
Jiangsu	36.76
Inner Mongolia	38.93
Tianjin	39.13
Jilin	41.45
Heilongjiang	43.57
Yunnan	44.10
Xinjiang	44.55
Shenxi	45.30
Shanghai	46.69
Shandong	47.04
Hebei	49.09
Zhejiang	50.00
Hunan	50.96
Guizhou	51.67
Hubei	51.88
Gansu	53.72
Fujian	54.59
Ningxia	55.32
Jiangxi	55.36
Qinghai	55.36
Henan	55.81
Anhui	55.83
Sichuan	56.10
Shansi	58.68
Tibet	

Note: Mean is 45.45%.

HN-5 Ground-to-Air Missile System Described

900N0426A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 1, 15 Jan 90 pp 2-3

[Article by Zhou Jinshui (0719 6855 3055): "The HN-5 Ground-to-Air Missile Weapons System"]

[Text] The Hongying No. 5 (HN-5) ground-to-air missile weapons system is a first-generation portable shoulder-fired ultra-low altitude air defense missile system that was researched and developed, produced, and assembled in China. It is a powerful weapon for the direct protection of mechanized infantry and artillery, tank, and paratroop units. In combination with other air defense weapons, it may be used to protect tactical targets.

Characteristics

Selection and change of gunner launching positions is very easy. All that is necessary is to make sure that the gunner can view the target, and that he is not under attack when launching the weapon. The weapon may be fired from open ground, swamps, the roofs of buildings, or from a slowly moving vehicle on a smooth road surface. After launch, automatic tracking of the target can be done without continued gunner operation of the system, allowing the gunner to take cover or change position at once.

Required visual conditions permitting, this missile system can employ tail-chase to attack jet aircraft. Against propeller aircraft and armed helicopters, it can attack head-on or employ tail-chase.

When employing this weapon, both defense and maintenance are very simple, and ground mobility is good. When on the march, gunners carry the missile on their backs in a sling. During combat, they carry it on their shoulder, launching it from either a standing or a kneeling position.

Construction

The complete HN-5 weapons system consists of a missile weapons system, instrumentation, and simulated training equipment.

The missile weapons system is made up of a tubular missile, a firing mechanism, a ground battery, and safety goggles.

The missile to be fired is inside the launching tube, supported by positioning rings front and rear on the missile and the walls of the tube, and held in place by a missile locking pin. Its control plane and tail are maintained in the retracted position inside the walls of the tube, deploying automatically from the force of the missile when it leaves the tube.

When the weapon is being carried, transported, and stored, the missile tube serves as the missile packing tube. In combat, the tube is used in aiming and launching the missile; and during launch, it protects the gunner from gas burns from the engine.

The body of the launching tube is made of fiberglass-reinforced plastic. On the outside wall of the tube is mounted a mechanical aiming device, an aiming leeway indicator, a target information indicator light, a firing mechanism, and a ground battery socket.

Following inspection and reconditioning, launching tubes can be re-used.

The firing mechanism is used to prepare the missile for launch, for controlling the launch sequence, and for launching the missile. When the missile locks on to the target and there is a sufficiently large target signal, the buzzer in the firing mechanism goes off, and the indicator light flashes, indicating that the missile is ready for launch. The gunner may then pull the trigger to launch the missile. Depending on the size of the target sighting line angular velocity, the gunner may select either a manual or an automatic launch. The firing mechanism is able to track and analyze the signal automatically. When it confirms firing conditions are right, it can initiate launch procedures, ignite the launch mechanism, and launch the missile from the tube. The firing mechanism can be used repeatedly.

The ground battery is a pyroelectric battery usable just once that is used to ready the missile for launch, and to launch it, providing electricity to all parts of the weapons system.

Protective goggles are used when launching the missile to protect the gunner's eyes from being burned by gasses from the launcher.

The Missile

The exterior of the missile is a thin body with a blunt head. The head is a bulbous, quick-connect, quick-release circular cone shape, and the missile body has a circular cone shape. A pair of control fins are mounted forward on the missile body, and two pairs of tails are mounted at the rear body of the missile, forming an X-shape canard aerodynamic configuration.

For convenience in manufacture, assembly, and replacement of parts, the missile is divided into four compartments, which are held together with screws. These four compartments, from forward to aft, are as follows: the target-seeking compartment, the servomotor compartment, the warhead compartment, and the engine compartment.

1. The target-seeking compartment. This includes both the position indicator and the electronics. The position indicator is a gyroscope tracking device fitted with an infrared optical system. The electronics consist mostly of target-seeking tracking circuits and missile automatic pilot instrument circuits.

Radiation energy from a target infrared source is received by the position indicator optical system. After focusing, it is projected to a modulator plate and an infrared detector. The electric pulse signal sent out by

the infrared detector contains both the size of the deviation and position information. After the signal is processed by the electronic circuits, one circuit becomes a control signal to operate the control actuator. The other circuit goes into the position indicator precession coil, exerting a precession moment of force on the gyroscope rotor. The gyroscope precession process is a tracking process by which the position indicator eliminates its optical axis relative line of sight deviation.

2. The servomotor, which acts as a canard aerodynamically configured control fin-moving front wing is located in this compartment. This compartment is loaded with the gas-control actuator that operates the control plane, and the gas generator that provides energy. It also contains a gas turbine generator that serves as an on-board source of power, and a rectifier manostat, as well as an angle rate sensor and demodulator.

3. The warhead compartment includes both the warhead and the detonator. The warhead inflicts casualties through the concentration of energy, from shrapnel, and from blast. Its primary purpose is to inflict casualties through the concentration of energy and from blast. The detonator is an electromechanical contact detonator; its self-destruction equipment can self-destruct the missile after between 14 and 17 seconds of flight.

4. The engine compartment. This compartment contains the launch engine (with launch ignitor), the main engine (with time-delay ignitor), and missile tail module.

The launch engine is used in launching the missile, enabling the missile to attain the velocity needed to exit the tube. Additionally, since the firing nozzle is installed at a slant, this imparts a certain rotational speed around the missile body vertical axis, requiring only the installation of a pair of control plane vent control systems.

The main engine is a single-chamber, dual-thrust, solid-rocket engine. Its first thrust accelerates the missile to its maximum flying speed after which the second thrust enables the missile to continue to fly at virtually that same speed.

The delay ignitor is used to ensure ignition of the the main engine's charge only after it is more than 5.5 meters away from the tube, in order to ensure the gunner's safety.

The tail assembly is made up of four tail pieces and their arraying mechanism. The role of the tail is not only to produce lift and to ensure necessary static stability, but also causes the missile to spin as it flies, since the tail's surface has an angle of declination relative to the missile's vertical plane.

The missile's control system relies on the rotation of the missile around its vertical axis. It employs a single-vent control method, thus, its components and its circuitry are fairly simple and compact, in keeping with this missile's small bulk and light weight.

The HN-5 missile weapons system has gone through all sorts of flight test evaluations of its design as well as operational test evaluations. On 1 October 1984, it passed in review at the grand ceremony in commemoration of China's 35th national anniversary. In 1987, it was evaluated as a premium national product.

By way of improving the product's operational performance, numerous improvements have been made to the HN-5 missile weapons system in recent years. Examples include the use of thermoelectric cooling in the HN-5A missile weapons system to increase its target detection range; increasing warhead weight to boost casual infliction capabilities; and improvement of its anti-background jamming capabilities as well.

During improvements to the HN-5 weapons system, the electronics compartment and the firing mechanism electronic circuitry were integrated to improve reliability, and warhead weight was increased to improve casualty-infliction force.

The HN-5 missile weapons system has been sold abroad. In field air-defense combat on a west Asian battlefield, it brought down armed helicopters and other aircraft. Foreign customers report this to be an effective air-defense weapon that is small in bulk, light in weight, highly accurate, easily operated, and not requiring constant tending.

Principal Tactical and Technical Standards

Weapons system total weight	15 kilograms
Weapons system length	1,508 millimeters
Missile weight	9.8 kilograms
Missile length	1,423 millimeters
Missile diameter	72 millimeters
Combat airspace	
Casualty altitude	50-2,300 meters
Casualty range	500-4,200 meters
Maximum lateral range	2,800 meters
Target speed	260 meters per second
Guidance method	Infrared automatic seeking
Work environment temperature	-40 C - +50 C

CENTRAL-SOUTH REGION

Guangzhou Executes Criminals, Sees Increase in Crime

HK1204121490 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 12 Apr 90

[Text] The Guangzhou City Intermediate People's Court held a rally this afternoon to sentence a group of criminals who had committed such crimes as illegally purchasing and selling guns and ammunition, armed robbery, and murder.

(Sheng Zhenyun) and eight other criminals were sentenced to death and executed this afternoon. (Xie Zhiqiang) and other 15 criminals were sentenced to death, life imprisonment, or years of imprisonment respectively at this afternoon's rally.

On the night of 29 November 1989, (Sheng Zhenyun), (He Guoqiang), and (Tan Binhua) entered a household on Taopan Road to rob a family. When discovered by police, the three armed criminals opened fire and killed Policemen (Li Xihua). They later escaped. The three criminals were captured by a public security organ in early April this year. It took only five days to complete the whole procedure from trial to execution. The case was the first since 1979 that had been cracked in Guangzhou within such a short period of time.

(Deng Guoji), president of the Guangzhou City Intermediate People's Court, said at the rally that the case was tried and handled in strict accordance with the law.

Of a total of 25 criminals sentenced by the Guangzhou Intermediate People's Court today, 12 had committed such crimes as illegally purchasing and selling guns and ammunition, armed robbery, murder, rape, and smuggling of guns and ammunition.

It was learned that since last year, Guangzhou City has witnessed a continued increase of such criminal activities as illegally purchasing and selling guns and ammunition. Statistics released by the department concerned showed that public security organs at all levels in Guangzhou City cracked a total of more than 30 such cases between 1988 and 1989.

(Deng Guoji) pointed out at today's rally that once arrested and prosecuted by the procuratorial organs, the criminals involved in such cases as illegally purchasing and selling guns and ammunition will be severely and quickly punished in accordance with the law.

Hunan Moves To Eliminate '6 Vices'

90CM0058A Beijing RENMIN GONGAN BAO
in Chinese 2 Mar 90 p 3

[Article by Xu Hanmin (1776 3352 3046) (in Beijing): "Survey of the Situation in Eliminating the 'Six Vices' in Hunan Province"]

[Text] Not long ago, on the basis of a decision by the ministry's leadership, our survey team conducted a

survey of the situation in the work of eliminating the "six vices" in Hunan Province. Throughout the survey the three deepest impressions we got were: First, the provincial party committee, the provincial government, and the subordinate prefectural, city, and county party committees and governments attached great importance to the elimination of the "six vices." The party and government leaders personally got a tight, solid grip on it. Second, all circles of society and the broad masses clap and shout "bravo" at the elimination of the "six vices," thinking that this means that the central authorities have grasped what is fundamental. They all say that if the "six vices" are not eliminated, it will be impossible for society to be tranquil, and they express their firm endorsement and vigorous support. Third, with regard to the elimination of the "six vices," work dispositions were made early, the preparatory work was done well, actions were fast, there was a great impetus, and the results were outstanding. By the end of November 1989, 39,944 "six vices" criminals had been tracked down, 882 "six vices" criminal gangs had been destroyed, 579 other criminal gangs had been destroyed, and 651 "six vices" dens had been destroyed or suppressed.

Hunan Province is now developing in depth the work of eliminating the "six vices." Its main practices are:

1. To Put on a Solid Footing Work Organization and Disposition

Making clear the guiding ideology for eliminating the "six vices," everyone from top to bottom thinks is an important part of implementing the spirit of the Fifth Plenary Session of the 13th CPC Central Committee, an important part of upholding the four basic principles and opposing bourgeois liberalization, and an important job in enhancing the building of socialist spiritual civilization, restoring a good social atmosphere, and stabilizing public order. At all levels the work of eliminating the "six vices" was earnest and down to earth. Therefore, at all levels, from top to bottom, leading groups for eliminating the "six vices" were set up. At the provincial level the provincial party committee and provincial government took a personal interest in the matter. One vice governor gave concrete backing, and the leaders of the relevant departments directly under the province took part in setting up a "six vices" elimination joint conference system, below which were set up offices for eliminating the "six vices." All prefectures, cities, and counties set up "six vices" elimination leading groups. The group leaders are secretaries or deputy secretaries, special personnel or deputy special personnel, mayors or vice mayors, county heads or deputy county heads. Each leading group also set up a "six vices" elimination office. These leading groups smoothly did the work of organizing, deploying, and commanding the elimination of the "six vices" and got a tight grip on the work.

Once elimination of the "six vices" began, the province organized party and government cadres, public security

cadres and policemen, and public security activists as "six vices" elimination forces, totaling more than 87,000 persons. When uncovering specific cases, responsible comrades at all levels personally went to the front line and directly directed the uncovering. In Changsha City the party and government leaders divided up the responsibility for uncovering the "six vices." Chenzhou Prefecture organized eight work teams, led by leading comrades, to be separately stationed in each county and supervise operations. The members of the Changsha County party committee separately led work teams to townships and towns, where they assumed personal command. At all levels the political science and law, propaganda, news, culture, public health, finance, civil administration, trade union, CYL [Communist Youth League], and Women's Federation departments closely cooperated and coordinated their operations. majority of areas satisfactorily resolved the actual difficulties, for example, the special experience for eliminating the "six vices," the places for housing prisoners, as well as the inspection and treatment of venereal diseases.

2. Big Impetus in Agitprop

Hunan Province's agitprop work for eliminating the "six vices" is led by the provincial party committee's Propaganda Department. First, it analyzed and studied the work together with the Public Security Department and relevant news units, put forward opinions on propaganda work in all places, and printed and distributed a propaganda outline for eliminating the "six vices." Afterward, the provincial-level newspaper, radio station, and television station every day carried propaganda reports on eliminating the "six vices." The newspapers and radio stations of the prefectures, cities, and counties started up special columns and special topics, which they broadcasted and reported.

In this period, in the name of the provincial office for eliminating the "six vices," two news release meetings were held in the province, at which the situation in the actions to eliminate the "six vices" was reported on in a circular. In all places the forms of holding public security and public punishment rallies, small mass meetings, as well as literature and art performances were adopted to carry out agitprop widely and thoroughly. The masses in Hunan said that the impetus for eliminating the "six vices" was much greater than the impetus in 1983 for a "strict crackdown"; the enthusiasm of the masses for eliminating the "six vices" has been aroused, and the criminals have been frightened. By mid-November 1989, the masses had provided 14,000 leads to the "six vices" and had seized and brought to the public security organs

a little over 1,200 persons; more than 2,100 persons had given themselves up to the public security organs; and a number of persons who had been involved in "six vices" behavior had registered and repented their error. In Changsha County alone, more than 17,000 persons registered and repented their error, indicating that they would never again engage in illegal activity.

3. Punishing the Minority, Educating and Curing the Majority

With regard to the "six vices" criminals tracked down, in line with the principle of punishing the minority and educating and curing the majority, they adopted various means and handled the cases at separate levels. As of mid-December 1989, 33,285 persons had been dealt with, 83 percent of the total number of criminals tracked down. Of them, 114 were arrested, 580 were given labor training, 1,384 were given detention training, 13,816 were given public security punishment, and 11,308 were dealt with by party discipline and government discipline. In all places, in dealing with the cases, some typical law cases were selected, mass rallies were held to deal with them on a grand scale, and the results of propaganda and education were expanded.

4. Setting Up Detention Training Centers

Prostitutes and whores who were not sufficiently punished under the law were detained and educated. In compliance with the provincial government's decision, in nine prefectures and cities—Changsha, Hengyang, Zhuzhou, Xiangtan, Shaoyang, Yueyang, Changde, Chenzhou, and Huaihua—detention training centers were set up. In the province as a whole, 1,384 prostitutes and whores were detained and trained, 21 percent of this type of person who had been tracked down. We saw that the detention training center in Changsha City was run well. The working personnel at this training center were mainly public security cadres and policemen, and there were also people transferred from the Women's Federation and the Civil Affairs Department. The Public Health Department was responsible for the inspection and treatment of venereal disease. For example, the Changde City Public Health Bureau transferred out 27 medical personnel who specialize in inspecting and treating prostitutes and whores for venereal disease. They found by inspection that, of 809 persons detained, 185 had a venereal disease; after half a month of treatment 142 of them were cured. Also, Changsha City's detention and education center released 1,681 persons, and only 17 of them had a recurrence of their old illness. From this it can be seen that the results obtained by the detention education and training centers have been outstanding.

Draft Rules on Relations With Mainland Criticized

90ON0442A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 8, 19 Feb 90
pp 22, 23

[Article by Li Da-hong (2621 1129 1347): "Mainland Jurists Comment on Taiwan's '(Draft) Rules on Taiwan-Mainland Relations'"]

[Text] The Mainland Affairs Council of Taiwan's Executive Yuan on 9 October 1989 approved a draft of "Temporary Rules on the People's Relations Between the Taiwan Region and the Mainland" which was drawn up by the Ministry of Justice. It is learned that this draft has been included on the agenda of the Legislative Yuan and, if nothing goes wrong, will soon become law. It will be the first time the Taiwan authorities use legislative means to regulate the problems between the two coasts. Therefore, it has triggered widespread concern by people on both sides, particularly jurists. So, how do mainland jurists perceive this draft?

Absolute Reflection of the Taiwan Authorities' Difficulties and Contradictions

The draft was drawn up against the backdrop of change between the two sides. Ever since the Taiwan authorities, compelled by internal as well as external pressures, allowed private visits to the mainland to see relatives, there have been increasing contacts between the people of both sides. Subsequently, problems of a legal nature have erupted, such as marriage, inheritance, ownership rights, creditor rights, copyrights, trademark rights, patent rights, and litigation. This has greatly challenged Taiwan's laws. In view of the fact that existing rules and regulations could not resolve all these problems, the people have called for speedy actions to work out new measures. In the meantime, many people have defied various bans and restrictions in order to visit families, sightsee, conduct trade, and invest on the mainland, which shook and challenged the Taiwan authorities. Reacting to this, the authorities felt that they had to quickly draw up a "Special Act on Taiwan-Mainland Relations" to resolve this problem which "seriously deviated from law and order." Professor Zeng Xianyi [2582 2009 5030], dean of the Research Institute on Taiwan Law at the People's University, maintained that this draft indicated that only through legislative action can the Taiwan authorities' resolve its troubled mentality and contradictory policies.

More Discriminations, More Restrictions, More Severe Punishments

It took 18 months for the draft to be written, revised, and completed by a special group and approved by the Mainland Affairs Council. But Professor Zeng Xianyi maintained that the draft in effect took a small step forward and a big step backward. Although individual provisions provide positive improvement, in general there is still a claim to "legitimacy" and an insistence on

the outdated "three-no's" policy. The draft also provides more discrimination against mainland people, places more restrictions on them, and imposes heavier punishments. For instance, the first draft listed eight categories of "restrictions" while the final draft has 14. The first draft detailed nine areas liable for criminal sanction, while the final one increases the number to 22.

Gu Yongzhong [7357 3057 0022] and Guo Chengwei [6753 2052 0251] of the Taiwan Legal Department at China Management Science Research Institute, after comparing the two drafts, pointed out the following features of the final version:

—It increases discriminations against the mainland people. For instance, the first draft stipulates in its sixth article that those mainland people who entered Taiwan without permits "cannot register as a candidate for public office in three years" but "shall enjoy the same rights and obligations as the Taiwan people." The revised draft goes further to ban them from "taking jobs in the military, the government, schools, or public enterprises" and forbids them to "form political parties."

—It places wider restrictions on trade and commerce between both sides. The preliminary draft restricts private persons and organizations to invest in the mainland or engage in direct trade (Article 29). The revised draft adds restrictions on technical cooperation with the mainland and on direct commercial activities (Article 30). Furthermore, "in accordance with national security and the need for economic development," the draft provides "appropriate restrictions" for Taiwan's private persons or organizations to have direct investment or technical cooperation in the mainland or through mainland organizations' foreign branches (Article 30).

The original draft places no restrictions on financial insurance, but the revision does. It says that "financial insurance organizations in Taiwan and their branches outside of Taiwan are not allowed to have direct business dealings with similar organizations in the mainland and their foreign branches" (Article 31).

As to the issue of mainland people receiving insurance money, compensation, and retirement pensions as a result of death of their family members in Taiwan, the original draft stipulates that the beneficiary is entitled to only half the money due him, and that within a year after death is reported, the beneficiary must enter Taiwan with a permit and apply in writing to concerned organizations. Failing this, the beneficiary is "deemed to have given up his inheritance rights" (Articles 15 and 16). The revised draft adds two more restrictions to this: 1) the applicant must be a person who "has never joined a rebellious organization or has joined but left a rebellious organization." 2) The applicant's claim should not exceed NT\$ 2 million [New Taiwan dollars] per person (Article 38).

—Articles provide heavier and more severe punishments.

The scope of punishment is wider. The first draft provides penalties for direct trade and investment in the

mainland (Article 42), while the revised draft expands the scope to include technical cooperation and other commercial activities on the mainland (Article 49) and outside the national boundary (Article 51).

Heavier fines and longer imprisonment. Any action to conduct direct trade and investment in the mainland is liable for a fine of up to NT\$400,000 (Article 42) according to the first draft, while the figure is raised to NT\$1,000,000 in the revised draft (Article 49). The first draft stipulates three years' imprisonment for violators, while the revised one provides imprisonment of five years (Article 45).

According to Gu Yongzhong and Guo Chengwei, the draft has some reasonable and acceptable aspects of revision, such as placing necessary restrictions on illegal entry to both sides and imposing criminal sanction on violators, which serve to protect social stability on both sides as well as the people's rights. But they noted that some of the changes have been made to articles that are already very harsh, unreasonable, and incompatible with the accepted code of human conduct.

Unreasonable Articles on Inheritance Should Be Removed

Article 9 and Article 10 of the final draft not only uphold the discriminatory policy regarding inheritance rights of mainland people detailed in the unrevised draft's Article 15 and Article 16, but also adds a supplement to limit the total sum of inheritance. Commenting on this, Professor Zhang Xipo [1728 1585 0980] of China People's University pointed out that every country and district has enacted laws and regulations to fully recognize and protect the right of inheritance. Most inheritance laws, he said, determine the right, order, and amount of inheritance on the basis of marital and blood relationships, not on political conditions. The draft, by forbidding those who "have joined a rebellious organization and have not left it" to have the right to inherit, seeks to deprive mainland people of their right to claim property, or even attempts to confiscate it. It is widely known that "rebellious organizations" are an outdated political notion and any attempt to use the term to deny inheritance rights violates all fundamental laws as well as existing laws in Taiwan. Article 42 of the draft says that "any mainland person who has joined a rebellious organization, or participated in a rebellious rally, or has publicly supported traitors, will be free from persecution or punishment if he reports this while applying to enter Taiwan." In other words, anyone who applies to visit Taiwan must "truthfully report" his political affiliation and experience (this, in fact, is forced "surrender"), or else he will face criminal punishment. This, in essence, not only is a public denial or an unreasonable deprivation of mainland people's right to go to Taiwan to assume their legal inheritance rights, but also is a political persecution of them.

Article 10 stipulates that a mainland person who is a beneficiary is entitled to only half the inheritance and that the sum total cannot exceed \$76,923. Professor Zhang Xipo viewed this clause as totally unreasonable. According to accepted law, he said, decisions should be based on whether the deceased has legal property, or whether the beneficiary

has the right to inherit. The extent of inheritance should not be decided on the basis of how much the deceased's property is worth. He said that as long as the deceased's property is legal, the beneficiary is entitled to inherit all of it without anybody placing restrictions on it.

Valuable Proposal

Zhang Jinfa [1728 2516 5672], dean of the Taiwan Legal Department at China Management Science Research Institute and a professor of China Legal University, said that every policy and regulation should be made on the basis of objective reality and not as one pleases, otherwise mistakes will arise. The fact that the draft is worse than the earlier one despite repeated discussions and revisions is proof of this point. The enactment of a Taiwan-Mainland People's Act has triggered concern among people of both sides as well in the international society, therefore it must conform to the standard recognized throughout the world. If science is replaced by emotions, there will be nothing left but injustice. Therefore it is hoped that, as the Taiwan authorities and their Legislative Yuan make their final bid to discuss the draft, they will attach importance to reunification and come up with a law that is based on equality and justice, that reflects not denies, the people's wishes, and that benefits not hampers, the healthy growth of the relationship of the two sides.

Assistant Professor Zhou Zhonghai [0719 0022 3189] of China Legal University pointed out that historical reasons have caused the creation of different legal systems on the two sides, and that both should recognize the effectiveness of each other's judicial judgment. That the draft only cites Taiwan laws and totally disregards mainland laws is unwise and impractical and will not help the contracts between people on both sides.

To effectively resolve the new legal problems, Professor Zeng Xianyi proposed the establishment of an intermediary legal body in each other's area on a reciprocal basis, or of a joint or separate intermediary legal body in Hong Kong to settle urgent civil disputes (especially inheritance and marriage) or commercial problems. He called for the promotion of two-way, direct, and extensive academic exchanges to replace the current one-way, indirect, and sporadic academic visits, so that the rights of the people on both sides can be protected and solid efforts can be made toward reunification.

'Liberalized, Internationalized' Economy Noted

900H0317A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 2, 8 Jan 90 p 24

[Article by Liu Yinghsien (0491 2503 0103)]

[Text] While Taiwan's economic changes seemed "less exceptional" than its radical political ones in 1989, they still contained the following major characteristics:

I. Taiwan's economy grew at a more moderate rate in 1989 than it had in the past.

Spurred by domestic demand, it grew at a rate of about 7.2 percent in 1989, or roughly the same as the 7.3 percent in 1988 and slightly higher than the average of six percent for the developing countries in the Asian-Pacific region. Its GNP was approximately \$150.4 billion, its average per capita GNP was \$7,518, its trade turnover was \$118.8 billion, and its prices rose slightly, with wholesale prices increasing 1.6 percent and consumer goods prices increasing 3.9 percent.

II. Taiwan's economy became more 'liberalized and internationalized.'

This was a striking feature of its 1989 economy, and could be seen mainly in the following areas: 1) The privatization of government-run businesses was put on the agenda. Although privatization had been called for in vain for some dozen years without being put into effect, concrete plans are now being made for it, its pace is being speeded up, and 19 government-run businesses, such as three commercial banks, "Central Steel," and "Central Chemicals," have been picked to be "privatized immediately." 2) Overall banking reforms were launched. The former system of pegging the exchange rate for new Taiwan currency to the U.S. federal reserve rate was eliminated in April to allow foreign exchange transactions to become freer. A revised draft of the "Banking Law" was passed by the "Legislative Yuan" in July to permit nongovernmental institutions to set up banks. The establishment of a Taiwan Foreign Currency Exchange Market was announced in August. 3) Domestic markets were further opened up. A revised draft for 1989 customs import tariffs was officially put into effect on 9 August, reducing tariff rates an average of 23 percent, and lowering the actual average tariff rate to 4.7 percent. 4) Trade relations with many countries were substantially enhanced. As the "forerunner" of flexible diplomacy, in addition to continuing to expand its economic relations with the U.S., Japan, and West Europe; and while enhancing its foreign economic relations and trade with Latin America, Africa, and Southeast Asia, Taiwan also achieved strikingly rapid growth in its foreign economic relations and trade with the Soviet Union and Eastern Europe.

III. The structural imbalances in Taiwan's economy were not basically improved.

It is estimated that Taiwan's 1989 commodity trade surplus will reach \$13.8 billion and be higher than in 1988. Its trade surplus with the United States increased instead of decreasing, and new Taiwan currency is still being forced up in value. The problem of too much idle money still urgently needs to be settled, and the government still had about \$73.2 billion in foreign exchange reserves by the end of November, or not much less than the \$73.8 billion it had in 1988. The stock market and real estate are still blowing up a storm of sharp price increases, the environmental protection problem is continuing to worsen, there is little wish to invest in Taiwan,

and the money outflow is increasing. All of these issues are going to have a negative impact on Taiwan's future economic growth.

IV. Foreign economic relations and trade between Taiwan and Mainland China developed to a certain extent.

Although the economic relations and trade between Taiwan and Mainland China, which consist mostly of nongovernmental and indirect trade and investment, experienced a temporary lull, they still generally grew more in 1989 than they had in 1988. Their 1989 volume of entrepot trade through Hong Kong is expected to top \$3.2 billion, or a 20-percent increase over 1988's \$2.7 billion. Although Taiwan's willingness to invest in Mainland China slackened for a time between the summer and fall of 1989, it is now gradually recovering. Not only did the number of Taiwan businessmen going to certain coastal areas of Mainland China, such as Amoy, to investigate, hold discussions, and sign contracts not decrease in 1989, but it increased instead. In the first 11 months of 1989, the city of Amoy approved 119 Taiwan-funded enterprises, or 52.9 percent of all such enterprises that it has approved over the years, and reached agreement on \$476 million of investment, or 76.7 percent of all such investments over the years. An encouraging change has begun to appear in Taiwan businessmen's investments to diversified forms, such as bigger investments, investments in more industries, and collective and lateral development.

The prospects for Taiwan's economy and its economic relations and trade with Mainland China in 1990 can be roughly predicted as follows: Since it will be affected by a world economy that is growing slower and many domestic problems in 1990, Taiwan will only be able to maintain a moderate rate of economic growth, that is about the same or possibly slightly less than in 1989. Even though there is still dissension in Taiwan over how to proceed, inherent and distinct official and nongovernmental motivation still exists to continue expanding economic relations and trade with Mainland China. Thus, it is predicted that there will be better economic relations and more trade between Taiwan and Mainland China in 1990 than in 1989.

Cause of Recent KMT Infighting, Future Scenarios
90P300094

[Editorial Report] In the 19 March issue of the Chinese-language PRC journal LIAOWANG (OUTLOOK) OVERSEAS EDITION, published in Hong Kong, author Cheng Jinzhong (4453 6855 0022) argues on pages 22-23 that Taiwan's recent political turmoil, sparked by the election for president and vice president, resulted from the outbreak of disagreements at the top level of the Kuomintang (KMT) leadership that have been brewing beneath the surface for the past two years. The author believes that the recent troubles presage future political turmoil and offers two scenarios for the future.

Cheng notes that the Taiwan press attributes the KMT's preelection infighting to many complicated reasons, but he believes that it resulted from the growing intraparty conflicts, for which the "person holding the power" cannot be absolved of blame.

Cheng acknowledges that a sheer struggle for power between the "main faction" and "non-main faction" of the KMT was an important factor in the intraparty fight. He says, however, that the arguments of the two factions reveal that the most important points of contention were foreign policy and KMT policy toward the growing Taiwan independence movement.

Cheng notes that over the past two years, the KMT has replaced its policy of not accepting the mutual existence of Taiwan and the PRC with "flexible diplomacy," "dual recognition," "establishing diplomatic relations," and "reestablishing diplomatic relations" (quotation marks in source) and has "schemed to force its way into some international organizations using the new name 'Taiwan-Penghu-Jinmen-Mazu.'" These tactics, says Cheng, would probably have been handled in accordance with Taiwan's "national laws" (quotation marks in source) in Chiang Ching-kuo's time. It is not surprising therefore, says Cheng, that elements within the Kuomintang "fiercely" oppose these tactics.

The KMT has also found it difficult, Cheng says, to arrive at a consensus on a policy toward the Taiwan independence movement, which has enjoyed a resurgence in the two years since Chiang Ching-kuo died. Cheng notes that new developments in the movement include the return of previously banned pro-Taiwan Independence organizations and the "incredible" activities they have since carried out, such as calling for a "new country and new constitution." (quotation marks in source) Cheng accuses the Kuomintang authorities of having done nothing to stop these developments, saying that their claim to be dealing with these activities "according to the law" is mere lip service.

The implications of the recent turmoil on Taiwan's future political situation, Cheng says, is a question that increasingly concerns people who are following Taiwan's political developments. He notes that the political situation is undergoing rapid change and that many different predictions on the outcome are possible. He nevertheless believes that there are only two likely scenarios. One is that the two conflicting factions will decide to avoid an open split and maintain overall unity by means of compromises on each side. The factions will share power in order to "clean up the political mess they have made," keep any one side from losing face, and share in the power and glory. Cheng notes that a strong rumor carried recently in the Taiwan press alleges that the two factions have agreed on five points: to respect the "constitutional system" (quotation marks in source) and make policymaking procedures more transparent, prevent "strongman politics and dictatorship by one man" by no longer allowing one person to simultaneously hold the positions of president and KMT party chairman, disallow "the settling of accounts after the political movement is over," institute open elections for the vice presidency, and oppose Taiwan Independence. Cheng says that the history of the KMT shows that temporary reconciliation is possible after the party has gone through a fierce struggle.

In the second scenario, Cheng predicts that neither faction will yield and both sides will continue to fight until one side wins. He says that the Kuomintang will openly split and the intraparty fighting will spill over to involve all of Taiwan's society. Cheng sees this scenario as the less likely of the two because it would involve islandwide instability and maybe even violence. He says it cannot be ruled out, however, because of the appearance of many independent political actors such as political parties, Legislative Yuan members, national assemblymen, city council and county council members, and various groups, all with their own ideas and all vying to influence the outcome. Chen says that everyone is hoping the outcome will be one that benefits the people of Taiwan and the reunification of the mainland and Taiwan.

Trade With PRC Seen Likely To Grow in 1990's

900H0300A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 3, 8 Jan 90
p 35

[Article by Zhang Yi (4545 1837): "The Outlook for Taiwan-PRC Trade in the 1990's"]

[Text] In recent years Mainland China has implemented a policy of liberalization, and Taiwan has relaxed its policies with regard to contacts with the mainland. As a result, Taiwan-PRC trade has gradually gone from under the table dealings to indirect, lawful trade. And after 1987, Taiwan business concerns began investing in Mainland China. Although the "June 4 Incident" struck a hard blow at Taiwan-PRC trade dealings, and parties adopted a more hesitant, wait-and-see attitude, the situation at present has changed somewhat and is getting better. Looking at the 1990's, Taiwan-PRC trade will continue to grow, direct trade may come about, and Taiwan firms will increase their investments on the mainland.

Total of 430 Taiwan Businesses Invest on the Mainland

In the last three years, the amount of trade between Taiwan and the PRC has risen sharply. Statistics indicate that trade between Taiwan and the PRC amounted to \$2.72 billion in 1988, an 80 percent increase over 1987. Due to the effects of the "June 4 Incident," the rate of increase in Taiwan-PRC trade in July, August, and September of 1989 shrank, but in October it picked up again. According to the statistics of the Hong Kong Customs office, for the months of January to October of 1989 Taiwan-PRC entrepot trade through Hong Kong amounted to \$2.919 billion. This represents an increase of 28.49 percent over the amounts during the same period in 1988. They estimate that total trade for 1989 could exceed \$3 billion.

Taiwan firms have continued to increase their investment on the mainland over the past two years. The "Investment Office of the Taiwan Ministry of the Economy" disclosed that 430 Taiwan firms had invested on the mainland by the end of 1988, and total agreements had reached \$600 million. Currently over 200 Taiwan firms have commenced production on the mainland, with 75 percent of these operating in coastal regions like Fujian, Guangdong, Shanghai, Zhejiang, and Shandong.

Fujian has consistently been a hot spot for Taiwan investment. Based on the numbers provided by pertinent departments in Fujian Province, 400 enterprises throughout the province had received approval to take in Taiwan investments by the end of July of last year. Investments cooled off during the period of the "June 4 Incident," but are now perking up quite nicely. The most obvious example of this were the Xiamen foreign investment talks held last September. There Taiwan firms signed up for 150 investment items worth a total of \$310 million. Also, we have heard that one Taiwan firm signed an agreement during the talks to invest \$200

million to set up a chemical plant on the mainland. If this item pans out, it will be the biggest single item of Taiwan investment on the mainland ever. Although the "June Fourth Incident" frightened off investors, the way it looks today things have not been affected much. After correctly assessing and analyzing the investment environment on the mainland, the investors are continuing to stream in.

Moving From "Three Forms of Import Processing and Compensation Trade" to "Three Capital" Enterprises

Looking to the 1990's, a variety of unstable factors will prevent Taiwan-PRC relations from becoming completely smooth. However, it looks like trade will continue to grow, Taiwan firms will increase their investments on the mainland, and the mainland's trade deficit with Taiwan may see some improvement.

Based on the current situation, medium and small enterprises in Taiwan will continue to look for suitable processing sites abroad in the next few years because of the difficulties that exist in the Taiwan investment environment. Although Taiwan firms continue to look to Southeast Asia, their top priority is Mainland China because of the similarities in language and customs and the quality of the labor. Mainland China's liberalization policies have not changed, and this means preferential treatment for Taiwan firms, and the availability of an enormous consumer market with a capacity to absorb huge amounts of commodities. It is for these reasons that the mainland holds considerable allure for Taiwan firms.

We can see from the recent activities of certain Taiwan firms that there is considerable interest in mainland investment. Last month, Ms Chen Xiangmei [7115 7449 2734], a Chinese living in the United States, openly organized a group that went to the mainland with trade on their minds. Although the Taiwan authorities tried hard to dissuade them, several Taiwan firms went along on the trip. Moreover, many of the Taiwan businessmen hold "Republic of China passports" or "Republic of China identification cards." Also, the director of the Taiwan Province Chamber of Commerce met with mainlanders in Hong Kong to organize the "Taiwan-PRC Trade Council." This body is to perform such things as trade arbitration and promotion of trade and technology exchange. In addition, 108 Taiwan firms that have established factories on the mainland decided to make plans for the establishment of a Taiwan Chamber of Commerce in Hong Kong. The pertinent parties have already drafted the plan, and it is predicted that sometime this January a formal meeting of the members will be convened. Their primary objectives are to promote the joint interests of all parties, exchange information about business conditions and mainland dealings, and play a promotional role in Taiwan-PRC trade.

The form of Taiwan investment on the mainland will probably undergo changes in the future. I would guess that investment will gradually move away from "the three forms of import processing and compensation

trade" toward "three capital enterprises." The depreciation of the renminbi will stimulate exports and inhibit imports, and in the next few years the number of mainland commodity exports to Taiwan will increase. On the other hand, Taiwan commodity exports to the mainland could drop. To a certain extent, this could improve the mainland's massive trade deficit with Taiwan.

Ding Kaien [0002 2818 1869], chairman of the Hong Kong-Taiwan Trade Promotion Council, sees greater trade between Taiwan and the PRC in the 1990's, but feels that the form of Taiwan investment will undergo changes in the times to come. In his view the indirect investment environment on the mainland is pretty good. But, he feels that with the events of 1989 behind us, the restriction of factory management power for "three forms of import processing and compensation trade" enterprises in the hands of the mainland parties will be unacceptable to the Taiwan investors, and they will come to demand that they have the power to manage the factories. Thus, Taiwan investment on the mainland this year will gravitate toward "three capital enterprises" as a substitute for "three forms of import processing and compensation trade" enterprises.

Direct Trade is the Thing of the Future

Without a doubt, a monumental change occurred when trade came out from under the table and became indirect but legal. However, because it is indirect, in the end it is less than optimal. Thus, many people in Taiwan business and economics circles are hoping to see the development of direct trade.

However, there are some who feel that there are now many problems, technological and/or political, that must first be resolved, and that in the near future it is unlikely we will see direct trade between Taiwan and the PRC. Actually, Taiwan is now still committed to the "three no's policy," and the "provisional regulations for contact with the mainland" drafted not long ago clearly stipulate that direct investment, trade, technological cooperation, or financial dealings are all impermissible, and that violators will be imprisoned. Similar laws have yet to be drafted concerning technology. At the same time, bodies will need to be established to handle Taiwan-PRC banking, travel between ports, and arbitration of business disputes among other things so that those engaged in Taiwan-PRC trade will be assured of the reliability of fund remittances and communications/transportation, as well as the governing legal framework.

Actually, these are all secondary issues. The main issue is the attitude of the Taiwan authorities. However, one high-ranking member of Taiwan's "Ministry of Economy" disclosed that many financial officials have open minds concerning Taiwan-PRC trade. He also pointed out that direct trade will be permitted before direct investment, and this will happen before 1997.

It looks like the development of direct trade and direct investment between Taiwan and the PRC is an unstoppable trend for the reason that it benefits both sides. People are predicting that in the 1990's it is very possible that the Taiwan authorities will relax their restrictions and will formally permit Taiwan businesses to directly trade with and invest on the mainland.

Trends in PRC-Taiwan Relations for 1990's

900N0327A Hong Kong CHU SHIH NIENTAI [THE NINETIES] in Chinese No 241, 1 Feb 90 pp 22-23

[Article by Shen Chun-shan (3088 0689 1472), professor, Physics Department, Taiwan Ch'ing Hua University: "Taiwan-PRC Relations in the 1990's"]

[Excerpt] Fundamental political changes that began in Taiwan toward the end of the eighties will progress at an accelerated rate into the nineties, with the keynotes of ethnocentricity, modernization, and standardization on a Chinese model.

Internally, there are two important issues. The first is that systemic changes, including changes in the constitution, governmental structure, and others, will fully reflect present realities in Taiwan. The first step could be completed in approximately three years, after the next session of National Assembly in 1993. This could take the form of a relatively moderate freezing of portions of the Constitution and revising provisional clauses, or it could also be a basic revision of the Constitution, the entering into the second republic; the results would all be the same. What is worthy of explanation is that there is not necessarily a connection between system reform and the state's adopting a unified independent direction; that type of talk is mere hallucination fabricated in the island's past domestic objective political environment.

The second issue is the building of education in democracy and a standardization of rule by law. Free economy and democratic politics were bred and born in Europe and the United States; in the East they must be transplanted and grafted onto the original cultural system. After World War II, the use of free economies was generally very successful in Eastern cultures. However, democratic politics were fully developed only in Japan. But even in Japan, democratic politics were not completely successful because the political practices and social standards produced a lot of contradictions in this expectant period. What saved Japan from political failure were its excellent civil service system, independent judiciary system, and respect for rule by law. Taiwan, on the other hand, did not have these kinds of traditions. In keeping with the trend of the times, the democratic form is as inevitable as water rushing to the drain. But how is the shift to be made from "rule by authority" to "rule by law" and how to regulate and control the abuse of power on the pretext of popular will, making democracy a successful system in substance will be much more difficult than a formal system reform. (One method might be to fully utilize an independent

check and balance in exercising authority and supervision as clearly prescribed in the constitutional system of Eastern tradition.)

The main external problem is, of course, relations between the two shores. Speaking only from the Taiwan side, the situation is rather clear and unequivocal. Taiwan's mainland policy is affected by three factors: consciousness of appearance, nationalistic feelings, and practical advantages and disadvantages. The people of Taiwan today (including the second generation of mainlanders) are growing more and more apathetic toward nationalistic consciousness and anticommunist awareness. Today's relations between the two shores will develop from an awareness of one's origin, with practical advantages and disadvantages the main considerations. Among the practical advantages and disadvantages in economic benefits—mutually supplement market demands and resource supplies are the most important. For this reason, from Taiwan's perspective, the development of relations between the two shores is one of a reconciliation of economic benefits and political contradictions.

But this is the view only from Taiwan's side. Before 4 June, some Taiwanese had hoped to establish some kind of mutually beneficial relations with the mainland economic construction as an initial impetus toward reconciling relations between the two shores. They had arrived at "three new nots": not dare to fight (in national defense), not able to fight (in international situation), and not wanting to fight. Not wanting to fight because of Taiwan's existence, which benefits the mainland's economic construction, was particularly indispensable to all the other interest groups. The more developed the economy is, the greater the interdependent power these interest groups will have, and only peace will come out of the relations between the two shores.

All evidence indicates that those who had participated in policy decisions then and are in exile now believe that the above-mentioned development is fundamentally possible. Of course, 4 June changed everything; there are too many uncertain factors in the mainland's evolution. Those who are concerned about the mainland all recognize that change will happen after the passing of Deng, but how is it to be brought about? Most of the capable and intelligent mainlanders with whom I have recently come into contact are disillusioned with communism. But they yearn for authoritarianism, especially admiring the accomplishments of Chiang Ching-kuo in Taiwan and Lee Kuan Yew in Singapore. However, the mainland is very different from Taiwan or Singapore. First, the mainland is vast in area and heavily populated, with each place different from the other; centralized power trickles on down the line without checks and balances and results in abuse somewhere in the middle. Second, in both Singapore and Taiwan, there is a separation of "authority" and "profit." Although power is centralized, profits are absolutely open. This is because Chiang Ching-kuo and Lee Kuan Yew did not permit persons with authority to make profits. Whereas on the mainland, "authority" and "profit" are combined, to centralize authority is to centralize profit.

How are the common people going to feel about this? Third, Singapore and Taiwan both have their own objective external elements as checks and balances on their authorities. The nationality tension in Taiwan and Communist China's alert watchfulness from across the shore, and Singapore's pellet-sized land all are keeping the authoritarians vigilant in peace time, not daring to be the least bit careless. The mainland, however, is still a large, half-sealed society, without this outside check and balance. An absolute power inevitably led to suffocation and corruption.

So if the mainland wants to put authoritarianism into practice effectively, it must first share administrative power, allowing coastal areas whose market economies have already initially developed, to rise from economic separatism to "administrative separatism." But how much will this be possible with a weakened central authority after Deng?

Therefore, regarding relations between the two shores, there is nothing for Taiwan to do in the political arena for the immediate future except maintain the status quo, quietly watching the changes that occur on the mainland. In the economic arena, however, there is no harm in being positive, particularly in taking the lead to promote economic cooperation with the coastal areas of Fujian, Zhejiang, and Guangdong Provinces, "making profit linked and joined together, each supplying what the other needs, mutually providing a protective screen." Creating this kind of situation is certainly beneficial for the economic development of both sides—not only for Taiwan's security in the long run, but also for the immediate effects. But then, this, of course, must have a prerequisite: the ability to take the lead. [passage omitted]

Mainland Figure Criticizes 'Taiwan Experience'

90CM0026B Hong Kong MING PAO in Chinese
19 Feb 90 p 21

[Text] Cheng Siyuan [4453 1835 6678], director of the Association for Peaceful Unification of China, recently leveled a strong attack against the "Taiwan experience." He felt that the "Taiwan experience" promoted by the Taiwan authorities for application on the China mainland is only "foolish rubbish" and the Taiwan authorities are only using it to cover up their own shameful inadequacies to fool the people on Taiwan.

This is the strongest criticism ever, by top-level persons in the CPC hierarchy of the Taiwan experience.

According to reports by XINHUA SHE (NEW CHINA NEWS AGENCY), Cheng was recently interviewed by a reporter for the Mainland China publication TONGYI LUNTAN (UNIFICATION FORUM). When the discussion led to recent efforts by the Taiwan Government to promote the "Taiwan experience" on the Chinese mainland, he said, "During the past few decades, the people on Taiwan, like those on the mainland, have created a vast cache of riches for the Chinese people, by

practicing the traditional Chinese virtues of hard work and wisdom. The results of these constructive efforts constitute a whole of the parts that complement each other, adding new blood to national economic development. But the so-called "Taiwan experience" that the Taiwan Government wants to promote in China is rubbish aimed to deceive the world. While it is used to deceive the people on Taiwan, it is also used to cover up their inherent shamefulness."

Cheng Siyuan indicated that the Taiwan Government has deliberately avoided the following facts:

First, when the Kuomintang (KMT) retreated to Taiwan in 1949, it took with it foreign exchange, silver, and gold from the national treasury, and much industrial production equipment worth about \$400 million, as well as a sizeable force of talented people skilled and experienced in building up an infrastructure. Second, the Taiwan Government received various kinds of military and economic assistance over the past several decades. Third, it also made war profits during the Vietnam war. Furthermore, the Taiwan Government also covered up its martial law oppression, environmental contamination, and the shameful rewards of relinquishing economic sovereignty. He said, "What is all this talk about the Taiwan experience? It is simply self-deception to deceive others!"

In discussing the phrase that "living standards on both sides of the [Taiwan] Strait vary, and talk about unification is premature," Cheng said that historically, standards of living on both sides of the straits have always varied, but this should not affect unification. He said there are people who do not approve of the "one nation, two systems" concept, but propose "the three principles of people" instead, requiring the mainland to abandon the four basic principles. This is forcing one kind of system on the mainland, without the mainland side forcing "socialist unification" into the deal. This is an excessive requirement. If something has to be forced into it, how can it be peaceful unification?

Cheng Siyuan also said that the differences are nevertheless great, for great differences do exist between various provinces and cities on the Chinese mainland. But the level of economic development in some of these large entities is not low. We should not consider problems only from certain economic figures and indicators; instead, we should have an overall awareness and recognition of the prospects that the total economic potential, including science and technology know-how, present and future development. In summary, differences in the standard of living cannot be construed as a reason for no unification.

When the prospect for unification of China was broached, Cheng Siyuan said that in recent years an atmosphere of peace and calm has reigned on both sides of the Taiwan Strait. On the basis of present world conditions and other factors, if the Taiwan authorities changed their attitude of anticommunism and resistance

to unification, and took a wise and long-range look based on the interests of the nation and the people, the course of peaceful unification for China would be stepped up. He emphasized that the key to this problem is the Taiwan Government's policy decision. He also pointed out the fact that the increasing cry for "Taiwan independence" has become louder recently is due chiefly to support and lenience by someone in the Taiwan Government.

With respect to the Taiwan general election being held this year, Cheng thinks it is an internal matter of the Taiwan authorities, and none of the CPC's business. However, he hoped Taiwan will elect a wise leader who can see the long view and supports China unification, which would be favorable to the goal of peaceful unification.

Speculation on 'High-Level' KMT Power Struggle

WOCMD026A Hong Kong TA KUNG PAO in Chinese
19 Feb 90 p 5

[Article by Huang Fu-chi (4106 3940 0679): "Division? Crisis? What is the Real Scoop?"]

[Text] When Li Teng-hui and Li Yuan-ts'u (2621 0337 4662), as the "two Li candidates," were selected by the Kuomintang (KMT) Central Committee at an emergency session to nominate candidates for president and vice president in the next election, the event created a political storm that has yet to subside. This occurrence has generated much attention in Taiwan and abroad.

A news bonanza came out after the meeting, with such headlines as "Power Struggle in the KMT," "The Era of Li Teng-hui Has Arrived," "Intensive Debate Within KMT Over Procedure To Nominate President and Vice President," "Li Huan Will Resign in Cabinet Reshuffle," "KMT's Sung Ch'u-yu [1345 2806 3842] Submits Resignation," "Polarization of KMT's National Assembly," "Chiang (Wei-kuo) [5592 4885 0948] Supporters in National Assembly Denies Keeping Out Other Candidates," "KMT and National Assembly Supports Open Elections, Chiang Supporters Yet To Show Clout," "How the Chiang (Wei-kuo) and Li Huan Factions Will Collaborate Yet To Be Seen," etc. For a time, rumors abounded among political circles in Taiwan, and people wondered what kind of situation really exploded within the KMT. Truly, this phenomenon is rarely seen inside the KMT in recent years, and some of the things that happened are truly cause for concern.

It should be noted that the stance of various media on the island differed in the way they reported this event. It was said that reports on the heated debate by newspapers and the broadcasting media controlled by the military were more complete, while the KMT-controlled media gave more watered-down versions. In programs offered by three television stations on Taiwan, only the "Hua-shih" (China Television) station controlled by the military covered the debate more completely, giving it 20 minutes. That speeches by the faction advocating ballot

vote were given continuous exposure was said to be related to Hau Pei-tsun's [6787 2672 2625] attitude. Next was the provincial government's influential "Tai-shih" (Taiwan Television) station, that diluted the debate coverage somewhat, but still provided a fairly comprehensive report on the facts. But the KMT-operated "Chung-shih" (Central Television) station showed little of the floor debate, and relied on their reporter's whitewashed descriptions. It was rumored then that all three stations had been given "directives" or "guidelines" to headline the event as "As Sign of Party Democratization, Debate Yields Excellent Results," and so forth.

Coverage by the newspapers followed a similar pattern, with the military-controlled CHING NIEN JIH PAO and the TAIWAN JIH PAO devoting considerable space to this emergency meeting of the KMT Central Committee. What was odd was the detailed coverage the CHING NIEN JIH PAO gave the debate between the two party factions, without reservation. The provincial operated TAIWAN HSIN SHENG PAO seemed to give the debate selected coverage by deliberately avoiding the heated exchanges in its reporting. The KMT-controlled CHUNG YANG JIH PAO did a whitewash: not only did it not mention differing views brought out in the debate, its outstanding coverage was limited to Li Tung-hui's fight for the nomination and a statement by the general secretary that described the emergency session of the KMT Central Committee as "a successful democratic process that produced satisfactory results." Another two newspapers, the CHUNG KUO SHIH PAO and LIEN HO PAO also differed in their coverage, especially the former, which gave the affair a more detailed report, and stated clearly the role of factions in exposing certain contradictions and behind-the-scenes moves. Another group of civilian (citizen-operated) papers such as the TZU LI TSAO PAO, and so on, boldly reported on the "breakup crisis in the KMT" that provided background information on the struggle between the two factions.

The emergency session of the KMT Central Committee this time was very unsettling. This is a fact. Some of it was quite obvious—such as divisive views expressed during the nomination process for presidential and vice-presidential candidates. The session held three meetings of all the delegates that day, and the original agenda called for nominations for the presidential candidate to be held from 1130 to noon. Because of differences between many central committee members and alternates on the nomination process, with many of them making speeches in turn, the nominee for president was not chosen until 1330, and that for vice president was also delayed 20 minutes, and not completed until 1530.

At 1030 of the same day, Huang Shao-ku [7806 1421 6253] called a last minute meeting of the Central Arbitration Committee members. After statements by four of the Arbitration Committee members, including Kao Hsin [7559 0207] and Tsai Hung-wen [5591 7703 2429], who supported Li Tung-hui as the presidential nominee, the committee voted on it, and proposed Li Tung-hui to

the emergency session of the Central Committee as the KMT's candidate for president. It was passed by those present, though some remarks, such as "somebody wants to fire a cannon" and "a ballot vote is needed," emitted from the meeting in an "uneasy atmosphere of pretense." By 1130, when the first general meeting of the emergency session, chaired by Ni Wen-ya [0242 2429 0068], was called to determine the method by which nominees for president and vice president were to be chosen, dissenting views on the way elections were conducted were expressed by Kao Yu-chen [7559 5148 0088], Huang Ho-ch'ing [7806 3109 8095], Liao Fu-pen [1675 4395 2609], and others. It was suggested that times have changed, and a "balloting method that better expresses the desires of the people should be used," or, "since the Soviet Union's Gorbachev is so determined on reform, the KMT should be even more democratic in adopting the vote by ballot." A few others advocated following the original formula. Some in the group even rebuked "Taiwan independence" elements within the Democratic Progressive Party (DPP), and stated that within the KMT are also advocates of "Type-B Taiwan independence," "island nation ideology," etc. The result was that Ni Wen-ya announced that two voting methods would be used—standing and raising hands.

By 1215, when the second meeting began, Yu Mu-ming [7599 1970 2494], deputy director of the KMT's Organization Department, seized the podium, saying the voting "could not be muddled," that the resolution passed that morning by the general meeting "was not a glorious victory," and expressed his dissatisfaction by resigning. Chairman Ni Wen-ya then explained that he did not make any error in conducting the meeting. Another Central Committee member, Wei Yung [7614 6978], then mounted the podium to say that a "muddled vote" was a "disgrace," and asked for the vote to be counted again. At this time, Li Huan rose to the platform and said that "voting in accordance with the views of several persons at the previous meeting should not be followed; that the process should follow two stages: first, passing on a draft plan; then deciding whether to adopt election by ballot or by standing. He expected it would yield "the same results." Then Lin Yang-kang [2651 3152 3263] followed by saying that "as soon as he arrived that morning there were people asking him if he would participate in the 'presidential' race," or, "if he declined, he would be standing up the KMT." He agreed with Li Huan's suggestion and made a motion for a recess to "allow the secretariat to prepare the ballots" for the general meeting to determine the method to be used.

This was the interaction during the session's debate at the highest level. Sung Ch'u-yu [1345 2806 3842], the KMT's general secretary, mounted the platform and said that the "traditional" form of voting will be used, and declared "his desire to resign upon conclusion of the general session." After that, he dropped a bombshell statement: "Many persons within the KMT have been collaborating recently in some troublesome actions to destroy cooperation within the party. It does not matter

who supports whom, for anyone who feels that way should have the courage to come out and say so, and not engage in underhanded actions to destroy party cooperation."

After this, Chang Yu-sheng [1728 6276 3932] mounted the podium and passionately declared: "To however low a state the party has fallen, who created it?... The party is now controlled by a few... What kind of party is the KMT?" He even asked what kind of actions did those persons cited by Sung engage in that were so destructive to the party. He further leaked: "At two o'clock this morning, I received an urgent phone call from a top-level party member who told me I must support the party's hand-raising method for counting votes. Now, do you want me to say who it was?" Chang obviously was for voting by ballot. He continued, saying, "College students nowadays are hesitant to admit that they are party members. If the party has the courage, why shouldn't it allow everybody to express their views by ballot vote?... If the party still maintains the voting method used in the past, then we should all jump into the Tan-shui River and out into the Pacific Ocean."

Confusion reigned in the meeting in this manner. Finally, Hsieh Tung-min [6200 2639 7036] announced the final vote, with 97 votes for and 79 against, overturning the decision obtained by Ni Wen-ya earlier that morning. After that, the method for electing the presidential candidate whether by ballot or by standing was decided upon: 99 votes versus 70, in favor of voting by standing. Lastly, the order for electing candidates for president and vice president was agreed upon.

The situation was very obvious that on the surface it was a fight over differences in the election process. Behind it was hidden what the Taiwan media called "a secret power struggle among high-level KMT members." Moreover, during this sensitive stage when there is an increasing tendency for clashes of various political interests to surface and be publicized, the fact that Li Tung-hui has selected Li Yuan-ts'u as his "running mate," particularly at this time, may be construed as an obvious fuse. The repressive tactics used to manipulate selection of the vice-presidential candidate by some of the wealthier KMT elements in the National Assembly have been exposed, and it has thrown a variable into the general election for the Ninth National Assembly in March. It was further rumored on the island that the possibility exists for factions of "Chiang supporters" and

"Li [Huan] supporters" in party, political, and military circles to merge. Attention should be given to events coming up next month.

Investors Seek Out USSR, Eastern Europe, Vietnam

900H0480A Hong Kong CHENG MING
[CONTENDING] in Chinese No 3, 1 Mar 90 pp 81-83

[Article by Ho Ts'ai (6320 6846): "Taiwan's Trade With Eastern Europe, the USSR, and Vietnam"]

[Text] Eastern Europe: Prime Market Development Area of the Year USSR: An Increasingly Attractive Trading Partner Vietnam: A Rich But Pennyless Place

According to a CHUNG KUO SHI PAO [CHINA TIMES] report, Taiwan and North Korea are about to engage in direct trade. Although this information was denied by those concerned, some Taiwan businessmen predict that an incursion into North Korea is just a matter of time. Taiwan's foreign exchange reserves now stand at \$73.2 billion. It is "awash in money," and how to find avenues for investment has become an urgent matter. The development of socialist markets is gradually becoming a new stage on which Taiwan businessmen play.

Increase in Trade with the USSR and Eastern Europe Greatest

Back in March 1988, the Nationalist government announced the opening of direct trade with all of the East European countries (with the exception of the USSR and Albania), and in August 1989, direct trade with Vietnam was allowed. By the beginning of 1990, a proposal for the opening of direct trade with the USSR was also sent by the Ministry of Economics to the Executive Yuan for consideration. Currently, the National Trade Bureau of the Ministry of Economics has named Eastern Europe the "prime area for market development in 1990." This is not simply "following the fashion;" in fact Eastern Europe already holds a position of prominence in trade with Taiwan. The National Trade Bureau's annual report on foreign market economics and trade revealed that between January and November 1989, Eastern Europe (including the USSR) ranked first in terms of export growth among Taiwan's eight major trading areas, which include the United States, Japan, western Europe, and Southeast Asia. This is a 559.5 percent increase over the same period in 1988, the value of this trade totaling \$472 million. (See attached table.)

Taiwan Trade with the USSR, Eastern Europe and Vietnam

		January - November 1989		
	Population	Total Value of Trade With Taiwan (\$100 million)	Versus Same Period in 1988 (%)	Per Capita Hourly Wage (\$)
USSR	2.85	1.28	431.1	1.84
East Germany	0.17	1.02	10.2	-
Poland	0.38	1.16	41.5	1.35

Taiwan Trade with the USSR, Eastern Europe and Vietnam (Continued)

	Population	January - November 1989 Total Value of Trade With Taiwan (\$100 million)	Versus Same Period in 1988 (%)	Per Capita Hourly Wage (\$)
Czechoslovakia	0.16	0.91	42.2	2.05
Hungary	0.11	0.95	34.5	1.70
Vietnam*	0.63	0.20		

Source of Data: National Trade Bureau, Overseas Markets Economic and Trade Report, 1988

1. *Vietnam's trade was figured only the period January through September 1989

2. The per capita hourly wage in Taiwan is approximately \$3.90

3. The date for opening of direct trade between Taiwan and each country was March, 1988, except for the USSR, which the Executive Yuan is still studying, and Vietnam, which was August 1989.

Longstanding "Sightseeing on the Sly"

In the eyes of Taiwan, Eastern Europe in the wake of the collapse of the Berlin Wall represents a brand new and strange market more than 20,000 square kilometers in area with a population of more than 400 million. How to make contact with these countries has become a hot topic of conversation in Taiwan. A series of Nationalist government policies for opening trade have provided Taiwan traders with an opportunity to exhibit their talents in the USSR and Eastern Europe. The door now stands wide open to what was formerly an impenetrable "Communist handi" area. With the melting of the iron curtain, the travel routes between Taiwan and these countries have been filled with traders, artists, and tourists going to and fro. The tide of exchange is surging in both directions, each wave higher than the last.

"People with money have enjoyed themselves all over the world, except for some communist countries to which travel was formerly forbidden." This is the attitude of quite a few Taiwanese. Nevertheless, Eastern Europe is a fairly long way from Taiwan, and just the cost of an airplane ticket is not cheap. For this reason, tourism promoters fixed their sights on the heads of medium and small enterprises, and business is booming in sightseeing commercial travelers. Even before Taiwan removed restrictions on travel to Eastern Europe, some travel agencies took groups to Eastern Europe secretly.

Because of little competition on the new travel routes, there has been no vicious price slashing, and the travel agencies that "arrived first" were first to savor the benefits. They say that this is an "opportunity to offer quality while enjoying high profits at the same time." Quite a few travelers to Eastern Europe who have expensive tastes pay between NT\$7,000 and NT\$9,000 per day. They go to Eastern Europe in search of Bach, to the USSR in search of Tchaikovsky, and to Poland in search of Chopin, their tourist buses playing famous symphonies along the way. This emphasis on travel for "knowledge" has gained a response from quite a few Taiwanese, who view it as a "horizon widening" experience.

"Mining Valuable Deposits" in the USSR

Naturally there are quite a few businessmen among these tourists. The first on-the-ground survey increases the confidence of these "independently struggling" entrepreneurs. They drool with envy at the wealth of raw and processed materials, and the more than 400 million consumer market in the USSR and Eastern Europe. During the lunar New Year of 1990, quite a few businessmen intent on doing business visited the USSR for the first time when the temperature was 10 degrees below zero centigrade. They termed this "mining valuable deposits."

One of them, who must be counted as having struck it rich, was a chairman of the board of the Ch'ienkuo Trading Company, Chiang Sung-mu [3068 2646 2606]. Although he sacrificed his New Year holiday and the chance to be together with his family in order to talk about business far away at the top of the northern hemisphere, such a sacrifice was worth it. Chiang Sung-mu has more than 20 years experience in trade, and his view of this new USSR trading partner is, to use his own words, "more and more attractive." He deals with the USSR with facility, doing several hundred million dollars worth of business from a single contract. He describes "the energy expended is about the same as for a deal involving 500,000 sundry goods." During the next several years, Ch'ienkuo will buy from the USSR several hundred thousand tons of urea, timber, and steel billets from which it can make a sizable profit simply by turning them over.

Abolition of Single Party Dictatorship Markets Attracts Taiwan Businessmen

It is generally predicted that as Gorbachev gets rid of the single party dictatorship, and elements of instability are removed from prospects for trade with the USSR, this market containing a population of 280 million will become more enticing. The general manager of Chuan-lien, Pao Yung-chien [7637 3057 1696] estimates that during 1990 one-third of his exports to Eastern Europe will be to the USSR. He believes that fine product quality and post-sale services help build confidence with Eastern Europe.

Articles used in the everyday life of the people are in extremely short supply in Eastern Europe. The Ch'uanlian Trading Company, which was founded by the Textile Development Conference 10 years ago, took note of this, and made a major effort to open a new market for the sale abroad of Taiwan products. Results were extremely successful. Ch'uanlian's shipments to Eastern Europe of textile manufactures, computers, and electrical appliances increased 20 percent in 1989, the total figure reaching \$40 million.

At the same time, Taiwan traders also saw a small number of "name brand goods" in Eastern Europe whose importation into Taiwan could also be a way of making money.

Czechoslovakian Pianos Land in Taiwan

Petrof pianos, which are termed, "Czechoslovakia's national treasure," have been produced for 125 years, and are universally acclaimed. Two years ago, they landed proudly in Taiwan. Advertising signs hung impressively in the lanes and alleys off Eastern Nanking Road in Taipei, where the huge market was filled with these pianos from a strange country. Because of their low price and fine quality, as well as the novelty, nearly 1,000 Petrof pianos were sold in Taiwan during the past two years, making them the champions in terms of volume of sales in Asia. A person in charge of the Mingfang Company, which obtained the Taiwan agency for these pianos, Tseng Wen-cheng [2582 2429 2973], said with a cocky air: "Even the Czechs were jolted by the volume of sales."

Tseng Wen-cheng also showed exceptional acumen about crystal produced in Czechoslovakia. A crystal vase that can be bought in Czechoslovakia for only NT\$1,400 can be sold in Taiwan for NT\$10,000, a considerable profit. No wonder Tseng Wen-cheng's laugh covers his whole face.

Why Give Up Mainland China for Eastern Europe?

The craze for Eastern Europe has already begun to spread from trade to manufacturing enterprises. Since average wages in Eastern Europe are half or less than half of Taiwan's (for example, the per capita hourly wage in the USSR is \$1.80, while it is \$3.50 in Taiwan), this is another stimulus for businessmen engaged in manufacturing, who have been vexed in recent years by wage increases and a labor shortage in Taiwan. Consequently, the opening of the Eastern European market holds extremely great attraction, and quite a few people have acted at once. The Chengchou Electronics Factory has already announced that it will build a plant in Eastern Europe.

This raises an interesting question: Why do Taiwan businessmen give up what is close by to go after what is far away. Why do they go to Eastern Europe rather than the China mainland? According to some businessmen who have given up on the mainland market, they feel

insecure on the the mainland. Although both the mainland and Eastern Europe have a socialist system and lack foreign exchange, the mainland has no concept of the rule of law. It is simply without laws. On the other hand, the USSR and the various countries of Eastern Europe have much improved the investment climate since their transformation, and people are responding.

Vietnam Values Taiwan's Experience

Finally, Taiwan's trade with Vietnam is also worth mentioning. Taiwan businessmen regard Vietnam as a "rich but penniless place." By "rich" is meant that Vietnam has abundant natural resources such as coal, rattan, and rubber. "Poor" refers to Vietnam's extremely low purchasing power—per capita earnings amounting to less than \$200.

Reportedly, Japan and South Korea, as well as Singapore and Hong Kong, are currently investing in Vietnam, but Vietnam seems particularly friendly toward Taiwan. Ch'en Kuang-che [7115 1639 0772] of the Market Development Office of the Foreign Trade Association, who twice led delegations to Vietnam, revealed that Vietnam believes that the Taiwan model, in which exports drive growth, is the future model for Vietnam in developing medium and small enterprises.

Possibly Vietnam may also provide a means of infusing new vitality into Taiwan enterprises. Per capita wages in Vietnam run from \$10 to \$50 per month, one-fourth the Thailand rate, so Taiwan may move labor intensive industries, which are facing increasing difficulties to Vietnam, thereby linking Taiwan capital and technology with Vietnam's cheap human labor costs. Chang Tien-yu [1728 1331 0147], General Manager of the Chungta Company, which established the first stronghold in Southeast Asia said, "This is not a hollowing out of industry, but rather a projection of economic strength."

Recently, the Chungta Company formed the "Paolijung Company" in conjunction with the Vietnam Ministry of Machine Building and other central government departments. Plans call for the building of a plant to produce electronic spare parts. Chialung Enterprises has also decided to establish a textile mill in Ho Chi Minh City, its products to be marketed in Europe. Mingfa Enterprises will use local raw materials to set up rubber glove and wooden chopstick factories.

Need for Planning in Addition to Enthusiasm

Like many developing countries, Vietnam also faces a shortage of basic facilities such as roads, port facilities, warehouses, and energy. However, the Yaote Construction Company, which mostly contracts overseas projects, believes Vietnam offers opportunities. Building projects and investing necessitate travel to the most backward countries. Currently, the Vietnamese government is planning to build an area for the processing of exports at Haigiong in the north, and at Hiencang [1501 3263] in the south, improving all facilities in these places.

Basic facilities aside, Taiwan businessmen have also found that opening markets in Vietnam is by no means easy. In addition to the language barrier, and the lack of transportation, even more troublesome is how to build personal relationships. Some Taiwan businessmen who have had their first experience, understand this deeply. When doing business in Vietnam, finding avenues and building fine personal relationships is the first step for success. Actually, this same experience might apply equally to the USSR and Eastern Europe. In these planned economy countries, all enterprises are state-owned and collectively led. Foreign traders must frequently hold meetings with a huge number of departments concerned, and after the meeting, they must report level by level. This is an onerous process, and unless one has the help of "powerful people," investment plans frequently come to a premature end.

Therefore, amidst all the bravos, some coolheaded people note that when Taiwan businessmen go to Eastern Europe, the USSR, and Vietnam to invest, in addition to enthusiasm, won't they also have to do careful planning?

Biodata on KMT Reformist Chao Shao-kang

90CM0040B Hong Kong TA KUNG PAO in Chinese
1 Mar 90 p 7

[Article: "Chao Shao-kang and the New Kuomintang Alliance"]

[Text] Chao Shao-kang [6392 4801 1660], a new technocrat in Kuomintang (KMT), is a leading figure in the reformist faction of the party and a second-generation mainlander. Chao, who will be 40 years old this year, is a graduate of National Taiwan University, and received a master's degree in the United States. He once served as a research fellow in the mathematics department of the Central Research Institute in Taiwan and as an assistant professor in the agricultural mechanical engineering department at National Taiwan University. In 1981, Chao was elected as an assemblyman from Taipei City by a wide margin. In 1986, he was elected to the Legislative Yuan. He comes across as an eloquent speaker on television, and his close identity with middle-class views and manners has attracted voters. In a 1987 public opinion survey of political figures, he topped the list in popularity. As the People's Progressive Party (PPP) has steadily closed in, the KMT has played his name as its new trumpcard. After initially facing no opposition, he defeated the PPP's Lin Wen-lang [2651 2429 6745] in the Beitou's Shih Pai District, and again defeated Legislative Yuan member Hsieh Chang-ting [6200 7022 1694], producing immediate and major gains for the KMT.

Following his ascendance, Chao has gradually developed his image, advocated openness, reform, honesty and frugality, and attacked those who have special privileges, who monopolize, and who are filthy rich. He set his sights on becoming mayor of Taipei City. To achieve this

goal, he has not hesitated to fight with party comrades-in-arms at the ballot box. The KMT Central Committee has repeatedly delayed his nomination and curtailed his area of influence, but Chao has continued to hold his post as Legislative Yuan committee member by wide vote margins. In order to establish his own image, Chao frequently attacks the old guard of the KMT, and has been attacked as being muddleheaded by senior committee members.

In August of last year Chao announced the establishment of a "new KMT alliance," vigorously attacked the PPP's "new national alliance," while announcing that the former is not a new organization within the party. That's why the "new KMT alliance" has been tolerated by the Central Committee's secretary-general. In the several months since, support for the "alliance" has continuously grown in strength, and been confronted with opposition from the "old KMT." Chao and such figures as Li Sheng-feng [2621 0524 1496] and Hong Chao-yong [3163 2507 0516], have assailed the old party's general election defeat, the weakness, cowering, conservatism, and the suppression over the reformist faction as throwing the KMT party into turmoil and creating a disaster for the new KMT. If the pace of reform is not accelerated, he will have to personally use the "new KMT alliance" to save the party. Although there are those who think that the "alliance" has not play a full power as an entity; aside from attacking the central government, it's not a tightly organized political group to challenge the government. However, the eight leaders of the reformist faction originally elected into the Legislative Yuan have been expanded to 21 members, so the potential of this group cannot be overlooked.

Assemblyman Huang Chao-hui Profiled

90CM0040A Hong Kong TA KUNG PAO in Chinese
26 Feb 90 p 5

[Unattributed article: "Huang Chao-hui, the Man and His Work"]

[Text] Huang Chao-hui [7806 2507 6540], this radical National Assembly member of the People's Progressive Party [PPP], stirred up noisy protest in the conference hall during last Monday morning's inauguration ceremony for the eighth session of the National Assembly meeting. He continued later in the afternoon on the pretext of not knowing the whereabouts of the party's National Assemblyman Su Chia-ch'uan [5685 0857 0356] who had been expelled from the National Assembly that morning, in stirring up even more trouble in the party given by the President Lee Teng-hui for the entire National Assembly. When Lee Teng-hui proposed a toast to the assemblymen, Huang overturned seven dining tables one after another, making plates and dishes flying about, creating total chaos. Lee Teng-hui was very disgusted, and the dinner ended hurriedly.

Huang Chao-hui is a leading figure in the new-wave, activist faction of the PPP, who is pursuing a roadside doctrine [jie tou lu xian zhuyi 5894 7333 6424 4775

0031 5030]. He leads the roadside campaigns and flirts with the law. Even today, he still has a lot of law suits against him.

At the 25 December 1987's Sun Yat-sen Hall incident, Huang Chao-hui raised a banner in front of [then President] Chiang Ching-kuo with the words "old scoundrel, go to hell!" After Chiang had left, Huang loudly shouted curses at the old assemblymen just when the Minister of the Executive Yuan Yu Kuo-hua [0205 0948 5478] was giving a speech. At the second annual Constitution Commemoration Meeting, the PPP's National Assembly group caused a great uproar in the conference hall and after they were forcibly removed by the police, Huang Chao-hui took off his shoes and pounded on the glass windows of the Sun Yat-sen Memorial Hall. In August of last year, at a National Assembly conference to study the Constitution, for which Lee Teng-hui arrived to preside in his capacity as chairman, police arrived because the PPP's national assemblymen were surrounded by a human wall, and Huang Chao-hui entered the conference hall by breaking through the human wall. He even tried a rare acrobatic skill of a "wall lizard" attempting to climb over the wall. The many instances of the spectacular clash of this kind with the government have suddenly made a name for Huang Chao-hui "to an outstanding degree" in Taiwan.

Huang has close relations with Taiwan's Presbyterian Church. He studied theology for six years, and has received a Master's Degree in Daoist studies. During the Beautiful Island incident, he was given probation for abetting and hiding Shih Min-te [2457 2494 1795]. In 1982, his first taste of electoral politics, he lost by a slim margin of 300 votes in the election for Kaohsiung City's

legislative assembly. In 1986, he was elected to Kaohsiung's National Assembly by the second highest ballot.

Huang Chao-hui favors independence for Taiwan and last year when overseas Taiwan independence advocates such as Luo Yi-shih [5012 4135 0013] and Li Hsian-rong [2621 2009 2837] returned to Taiwan to promote the cause, they were escorted by Huang during the entire trip, showcasing his relations with the overseas proponents of Taiwan independence movement.

This time, Huang's tactics in disrupting the National Assembly are aimed at the aging Assembly members and he has constantly urged the KMT to solve the old problem of the "eternally aging assembly." Though he embarrasses Lee Teng-hui, he does not oppose the latter's election to the presidency. Of this, Huang noted that PPP's National Assembly contingent had considered the situation they faced in the presidential election, and adopted the method of abstaining in order to take a stand against this absurd method for electing the president. However, given the evolution of the future situation and the fact that the momentum of the pro-Chiang faction among the aging assemblymen is still substantial enough to challenge Lee Teng-hui and (vice president) Li Yuan-zu [2621 0337 4662], the PPP's National Assembly contingent just might, at the appropriate time, "work towards a situation that is in keeping with the aspirations of the people of Taiwan, and vote for Lee Teng-hui instead of eliminating him."

Huang, who prefers independence for Taiwan, on the one hand protested the method for electing the president, while on the other supported the legal rights of Lee Teng-hui as president. This is a very delicate situation.

Post-1997 Political Blueprint Develops Amid Contention

90CM0038A Hong Kong TA KUNG PAO in Chinese
25 Feb 90 p 2

[Article by Weng Hui-ling (5040 1920 3781) and Chen Pei-sheng (7109 1014 4563): "Assimilating the Rational Elements of Various Plans: Xu Chongde Discusses the Origins and Development of the Political System Blueprint"]

[Text] The section in the Basic Law containing articles concerning the post-1997 political system generated a considerable amount of controversy during work on drafting the Basic Law, and is also the section which has created the greatest difficulties. From the eighth Basic Law Drafting Committee meeting's "dual investigation plan" to the ninth plenary session's final blueprint, within the short span of slightly more than one year, due to the fact that confused and complex events had emerged in Hong Kong, the political subgroup was continually compelled to immediately react to new situations. Although the situation finally ended with a political system blueprint that was more or less accepted by each side, dramatic changes emerged in the process of revision that are still lingering in the air today.

Considering the Interests of All Sectors

Recently, when reporters from this publication visited him, Xu Chongde [6079 1504 1795], Beijing Chinese People's University law professor and Drafting Committee member, did not mince words in stating that the articles dealing with restrictions on the proportion of members of foreign nationality in the Legislative Council and with separate voting were the result of the new situation that has emerged.

He pointed out that, previously, when the British Government had not publicly proclaimed a Britain right of abode program, more than 50 members of the Drafting Committee also had not thought of the need to restrict the nationality of members of the legislative body. Subsequently, because of the announcement of the British right of abode program, the political subgroup was correspondingly compelled to adopt certain measures. These include, in addition to the restriction that important officials in the future government of the Special Administrative Region (SAR) cannot have foreign residency (passport) rights, slight extensions of restrictions, for example, in terms of restrictions on the status of the director of immigration and the commissioner of customs and excise, the restrictions of the Draft Basic Law (for solicitation of opinions) were restored. These restrictions had already been abolished in the original draft. The reason for the abolishment at the time was that the British Government had already adopted measures which arranged for Chinese nationals to hold these posts.

Xu stated that the political subgroup at one point opened discussion on this matter. The subgroup believed that

the positions of director of immigration and commissioner of customs, though not of high priority, are of a very significant nature, due to their important task of handling management of entry to and exit from Hong Kong, and it thus restored the content of the original draft.

In terms of the question of handling the proportion of legislative body members of foreign nationality and those possessing foreign residency rights, Xu pointed out that the original draft (for the solicitation of opinions), did not contain any restrictions, and did not contain stipulations that legislature members must definitely be Chinese citizens, although early on there were Hong Kong scholars who pointed out the need to impose such a restriction. At the time, the common opinion of the subgroup was that there was no need for restrictions, because Hong Kong is an open and free international city, businessmen from all over the world invest here, and many foreigners live in Hong Kong. The legislative body, as a representative organization of the inhabitants, ought to have representatives of these foreign persons, so that, when voting on proposals, it can consider the needs and desires of this group of people, and take into account the interests of all sectors.

The Proportion of Foreign Members

He noted that after the Britain right of abode plan was advanced, the question of nationality was officially discussed for the first time at the December Guangzhou meeting of the political subgroup. At that time, some members of the committee held that if restrictions were not added, then in theory all the members of the future legislature could be foreign nationals. If, on the other hand, as a number of Hong Kong scholars proposed, all the positions in the legislature were to be filled by Chinese citizens, then this would be too strict, and the suggestion of the subgroup was that some appropriate level of restriction be adopted. After a monthlong meeting, the political subgroup adopted a 15 percent restriction, and the then current plenary session gave in slightly, relaxing the restriction on the proportion of foreign nationals and those holding foreign rights of abode from 15 percent to 20 percent.

As for how the original figure of 15 percent was arrived at, Xu said that several suggestions were made, with some committee members believing that it should be calculated according to the proportion of foreign nationals in the overall population of Hong Kong. However, after a calculation was made using this criterion, it was discovered that the ratio was too low, and wouldn't be workable. Other committee members pointed out that if one took the proportion of foreign members of the present Legislative Council as the criterion, this would similarly yield a figure that was too low. Consequently, some mainland committee members proposed that using the basis described above, and making an appropriate increase, a figure of 15 percent could be accepted by the great majority of people. When the plenary session divided into group meetings, opinions all tended toward

relaxing the restriction somewhat, and hence, when Liao Yao-chu [1394 3852 3796] suggested increasing the proportion to 20 percent, it was accepted by a majority of committee members.

The Concept of Separate Voting

In the later stage of work on developing the draft, the point of greatest contention for the Hong Kong members was not the proportion of directly elected members in the first three sessions of the legislature; but rather involved the procedure for separate voting. Xu Chongde believes that the question of separate voting first arose in the "one legislature, two branches" plan, and this plan at the time could only be a plan that competed with the two branches, knowledge-sharing, and the checks-and-balances plan. If it were not for the fact that the situation in Hong Kong is so complex, then the one legislature, two branches plan could have been acceptable. In addition, were it not for the fact that the differences of opinion of Hong Kong people concerning the mechanism of separate voting are so great, then the function of separate voting would not be so small as that provided for in the plan that was finally adopted.

He explained that the one legislature, two branches plan was originally based on the bicameral system of capitalist countries, which was not considered unacceptable. For example, a majority of those figures in Hong Kong holding certain political positions have studied the systems of Britain and the United States, and Hong Kong's economic system and way of life are the same as that of Britain. It should then be quite easy for Hong Kong people to accept a bicameral system. In addition, at the time, the one legislature, two branches plan received the support of a group of influential figures.

Xu Chongde believes that, taking into account the comparatively large number of people who oppose this plan as well as certain factors of a complex nature associated with Hong Kong people themselves, the political subgroup could not accept the content of the plan, and, hence, at the monthlong meeting retained only the separate voting mechanism contained in the plan. Because Hong Kong people cannot calmly make an analysis of whether or not Hong Kong can accept a one legislature, two branches plan, the subgroup was only able to seek out other plans, such as the "4-4-2" plan, the comprehensive plan, the new comprehensive plan, the Chinese faction plan, and so forth, and although the starting point of all these plans was to solve the problem of the post-1997 political system, no single plan was in any way able to gain a dominant position.

He noted that on the basis of this situation, it is appropriate to assimilate the more reasonable component parts of each plan, for example, the separate voting structure proposed by the New Hong Kong Alliance had a definite impact on the content of the mainstream plan adopted at the monthlong subgroup meeting. However, due to the fact that this mainstream plan still generated objections, some amendments were made at the next

meeting. Xu believes that the idea of one legislature, two branches is represented only in a very small way in the new plan, and it seems that this idea has had only a minor effect on the separate voting mechanism for motions proposed by individual members and government proposed amendments. Looking at the history of Hong Kong's Legco, it may be seen that the majority of motions have been proposed by the government, while very few are proposed by members, and if in the future this still holds, the effect of the separate voting mechanism will in reality be diminished.

Relations Between the Executive and the Legislature

Xu, who believes that the political system model that the Drafting Committee members were finally able to adopt is based on a "checks-and-balances" model and that it assimilated the more rational component parts of each of the plans, hopes that Hong Kong people from all walks of life will be able to support it. He said that this plan can be effectively handled if stability is maintained for a period of 10 years. After 10 years there could be changes and considerable flexibility, and the 10 years of stability also would not be a static period, as there would be a gradual expansion of the proportion of directly elected members of the legislature. Since the adopted plan has assimilated the strong points of the other plans, it should attract the broad participation of people from all walks of life.

When referring to the articles dealing with the relationship between the executive and the legislature, Xu stated that the Drafting Committee members very early stressed the principles of establishing a mutual balance and working in coordination in the relations between the executive and the legislature. He pointed out that if only the mutual restrictions are stressed, while coordination is neglected, then this will likely have an effect on the operating efficiency of the government. If a future chief executive handling affairs for Hong Kong has too little authority, he will encounter difficulties in managing affairs, and because this will also affect operating efficiency, it would be not benefit the administration of Hong Kong. At present, the governor general of Hong Kong, though he directs affairs in accordance with instructions from London, listens to the opinions of many people in the consultative organs of the government before he makes a final verdict on a particular matter. There was some debate when the Drafting Committee discussed this question, and, in a speech at one plenary meeting in Beijing, Xu proposed that the authority of the chief executive be enlarged somewhat, but that the chief executive also accept certain restrictions, a proposal that very few Hong Kong committee members criticized at the time.

Xu believes that in the articles on the political system in the existing Draft Basic Law, a balance of authority exists between the executive and the legislature. For example, if the chief executive twice refuses to sign a bill that has been passed by the legislature and dissolves the legislature, and the newly elected legislature subsequently passes the original bill by more than a two-thirds majority and the chief executive still refuses to sign it, he must resign. In addition,

the legislature has the power to impeach the chief executive, address inquiries to the government concerning its work, as well as hear administrative reports from the chief executive and engage in debates, and so forth.

He said that, in order to avoid a situation in which the chief executive might act arbitrarily, the Executive Council, which is provided for in the existing articles, adds a collective decisionmaking component. It is an organization to assist the chief executive in making policy, and the chief executive must solicit the opinion of the Executive Council before submitting a bill involving a major policy decision to the legislature, making subsidiary laws, or dissolving the legislature.

Sino-Hong Kong Relations in Conflict

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[Article by Lu Tse-chien (4151 1311 0256): "How To Handle Sino-Hong Kong Relations?"]

[Text] New Year's Day, 1990, the Hong Kong branch Alliance Association, which had been inactive for several months, held a demonstration to petition China to bring about democracy. There were approximately 10,000 participants. Their morale was high. They shouted, "Down with Deng, Li, Yang," heedless of the warning by the Chinese Communists a few months before. This march made it clear that Hong Kong people had not forgotten 4 June, nor had they forgiven those officials that gave orders to fire on and kill the people.

This big New Year's Day march aroused anxiety in some people. They were afraid that this sort of "provocative" action would irritate the current Chinese Communist power faction, making Sino-Hong Kong relations even worse. In reality, the Chinese Communists have been, as of late, gradually tightening up its policy toward Hong Kong, one of the excuses it used was how Hong Kong people acted in last year's pro-democracy movement. Then a week before New Year's Day, Xinhua News Agency announced the arrest of Lo Hai Hsing [5012 3189 2502] and four other people from Hong Kong and macao accusing them of aiding Cen Jianxun [1478 1696 0534] for helping mainland's "counterrevolutionary rebellion elements" (that is, pro-democracy movement elements) flee the country. On the same day, RENMIN RIBAO ran a commentary claiming, "under no circumstances will China tolerate external antagonists to become involved in the interior," and warning that "whoever, within the borders of this country, engages in criminal acts antagonistic to the Chinese government in a vain attempt to change China's socialist system is certain to receive strict punishment of the law."

From this one can guess that the Chinese Communist faction in power was certainly none too happy with the big march on New Year's Day. The Hong Kong branch Alliance Association will continue to be a thorn in the side of the Chinese Communists, constituting a factor in strained relations between Hong Kong and China.

Why Is China Tightening Up Hong Kong Policy?

It would be quite wrong, however, to attribute poor Sino-Hong Kong relations solely to the strong actions of Hong Kong people. On the 4 June incident, the Hong Kong people are completely opposed to the position of the Chinese Communist; there is absolutely no room for compromise. Because of this, Hong Kong people have lost all confidence in the Chinese Communist authorities. By the same rationale, the Chinese Communist authorities harbour wariness toward the Hong Kong people, defensive in every way—a reaction also completely natural.

The Chinese Communist authorities know that they have completely lost the support of the Hong Kong people. They also know that this confidence crisis by the Hong Kong people will not get too much worse even if China tightens up its Hong Kong policy. This is precisely why, over the past several months, the Chinese Communists have made no effort to hide their tightening up of their policy toward Hong Kong, indiscriminately criticizing the Hong Kong people, the Hong Kong government, the British government, and even other governments or foreign organizations concerned with Hong Kong policy. This attitude of all-out struggle on the part of the Chinese Communists is the principal reason of the worsening relations between Hong Kong and China.

Aside from this, since the 4 June incident, the mainland's political atmosphere has had an overall tendency toward conservatism. For the moment, officials, high and low, of the entire country are taking one or two steps to the left and are in unanimity with the Central Committee to protect themselves. It is said that officers of Xinhua News Agency's Hong Kong Branch and of the State Council's Hong Kong and Macao Affairs Office might have already undergone criticism. The fact that Lu Ping [7627 1627], an official of the Hong Kong and Macao Affairs Office, said that he had received a lot of pressure soon after the 4 June incident is such an indication. At present, Chinese Communist officials responsible for Hong Kong affairs are all acting as if nearing a deep abyss, advancing slowly and digging in at each step; making absolutely no room for inroad by Hong Kong's "bourgeoisie liberalizing influence" and "counterrevolutionary elements." This conservative political atmosphere is another important cause of bad Sino-Hong Kong relations.

How To View Sino-Hong Kong Relations?

To imagine that the Hong Kong people could try to achieve stable Sino-Hong Kong relations merely by relying on self-control would be too naive. In fact, Hong Kong should not merely strive to refrain from provoking the Chinese Communist power clique, but should thoroughly consider how to handle Sino-Hong Kong relations. Below are a few of my views on this matter.

First, for Hong Kong to maintain stability and prosperity, it undoubtedly requires peaceful Sino-Hong Kong relations; this is the sum total of the experience gained by Hong Kong over the past several decades and the collective realization of the Hong Kong people. For this reason, the Hong Kong people should strive to improve Sino-Hong Kong relations. But this goal can be achieved only through the efforts of

both sides. China's Hong Kong policy has been influenced by the Hong Kong social situation, but it has also been influenced by the political situation in the interior. The present conservative political atmosphere in the interior impels the Chinese Communists to tighten up policy toward Hong Kong. Also, there is an even more sobering historical example: during the Cultural Revolution, the leftist faction in Hong Kong held riots that was affected mainly by the mainland's political atmosphere; the social situation of Hong Kong, on the contrary, was not an important factor.

Second, maintaining stability and prosperity is certainly the desire of most Hong Kong people, but man does not live by bread alone. Aside from the present standard of living, the Hong Kong people cherish their freedom and rights guaranteed by law; once they are lost, happiness will certainly be impossible for the Hong Kong people. If we are going to be deprived of the things we cherish in order to get a stabilized Sino-Hong Kong relations, we will have to think it over carefully.

Third, the China mainland is big, and Hong Kong small. In absolute strength, Hong Kong does not compare to the China mainland. But Hong Kong is superior in several aspects, the most obvious of which is in its economic power. For this reason, Hong Kong is by no means without a bargaining capability. In dealing with Sino-Hong Kong relations, we certainly want to consider limitations of the actual power, but we should not underestimate our capabilities and place Hong Kong in a passive position.

Fourth, we want Sino-Hong Kong relations to be generally stable, but it is impossible to have this relationship without undulation. Over the past several decades, Sino-Hong Kong relations have not always been all that stable. The Cultural Revolution period was obviously an ebb. Nor were Sino-Hong Kong relations particularly ideal during the 50's and 60's. In the early 1980's, there was conflict between China and Britain on the question of Hong Kong's future, the Sino-Hong Kong relations then appeared unstable. Strictly speaking, there have not been very many exceptionally good days in Sino-Hong Kong relations; what is important is for China and Britain both not to overdo it, so as to not cause a serious derailment in Sino-Hong Kong relations. Looking into the future, it would be very difficult for fluctuations not to emerge in Sino-Hong Kong relations. We should not react too quickly for the short term, but must keep Hong Kong's long-term interests in mind.

The above-mentioned views can be summarized in a few sentences: while seeking stable Sino-Hong Kong relations, we should not compromise principles, should not underestimate our own capabilities, nor should we be alarmed at something perfectly normal; moreover, this aspect of the work must be done by China and Hong Kong working in cooperation—it is not something that can be accomplished just because Hong Kong people are willing.

Viewed from this point, the current Sino-Hong Kong relations, although tense, are not really too bad. As for the considerable criticism that Hong Kong is getting from China, we can calmly explain the position and actions of the Hong Kong people, but need not be always accommodating and answering everything.

How Should Hong Kong People Control Themselves?

Up to 1997, Hong Kong will still be controlled by the British Government. To a certain extent, this is an insurance umbrella. China still can tighten Hong Kong policy, but has no excuses to put direct pressure on Hong Kong. For this period, the most important thing for the Hong Kong people to do is to do things by clear conscience. We do not have to deliberately provoke China, but we also need not make allowances for their feelings in every instance, or else Hong Kong society's operational habit would change and Hong Kong people's life-style would change, which is certainly not what Hong Kong people are willing to see.

While the British continue to control Hong Kong, they are also responsible for maintaining the stability of Sino-Hong Kong relations, which eases Hong Kong's immediate responsibility. The British government has had rich experiences in dealing with the Chinese Communist for many years, therefore, although the Sino-Hong Kong relations would change and the Chinese would gradually tighten its grip on Hong Kong before 1997, Hong Kong should still be able to keep its autonomy. For this reason, Sino-Hong Kong relations should not deteriorate to a great extent.

What one should worry about is the situation after 1997. After 1997, Sino-Hong Kong relations will change. Although this certainly will endanger Hong Kong's stability and prosperity, the greater danger will be that some people will overly accommodate Chinese communists' feelings, thereby making Hong Kong pay unnecessarily a price for a stabilized relations with the Chinese.

There are still over 7 years from now until Hong Kong returns to China, and Hong Kong people still have time to sum up past experience in developing Sino-Hong Kong relations and to discuss the basic principles of the relations of both sides. After the British depart, Hong Kong people will have to take responsibility in dealing with the mainland themselves. This is the reason why the discussions concerning this is urgent. Of course, in the final analysis, whoever is responsible for the management of Hong Kong in the future will be a critical factor in Sino-Hong Kong relations. Whether or not these people can represent the interests of the Hong Kong people is obviously an important question, but this involves the problem of political democratization in Hong Kong, which is outside the scope of this article.